THE LILLY DIGEST 1985

B5165-1-4

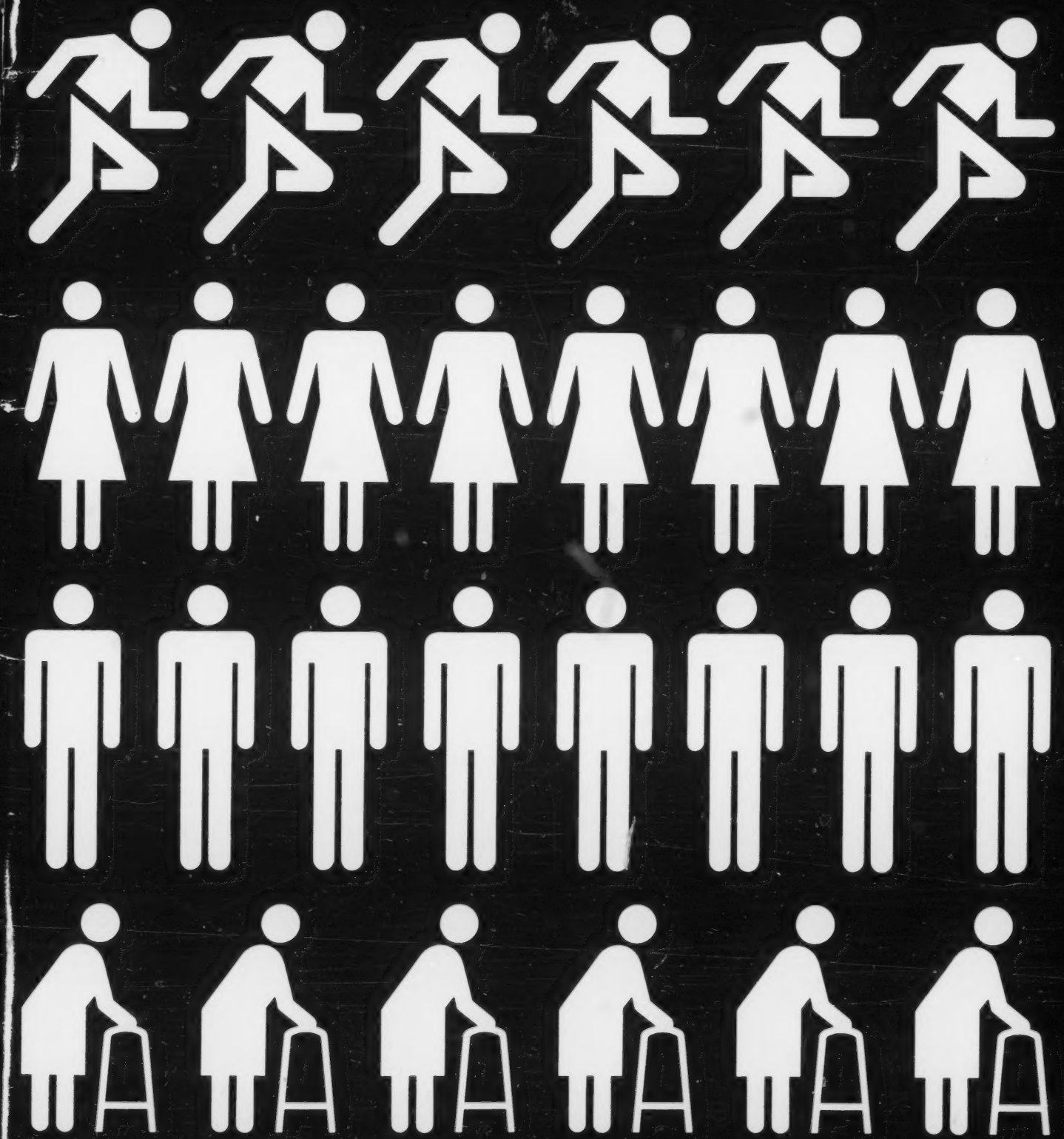


Table of Contents

Foreword

Executive Summary

Market Factors

Cost of Dispensing a Prescription

Sales Volume Summary

Prescription Activity

Balance Sheet and Financial Ratio Trends

Net Profit

Rent

Geographic Summary

Long-Term-Care Pharmacy Operations

Pharmacy Location

Operating Trends

Operations Outlook

Commentary

Analysis Work Sheet

Self-Analysis Section of the LILLY DIGEST

Conclusion

Lilly Analysis Service

Executive Summary

Total sales grew 8% in the average Lilly Digest pharmacy during 1984 and established a new record at $571,313 (Table 1). This growth was somewhat below the average annual rate of 9.4% noted over the past decade. The cost of goods sold rose at a faster rate than sales, which caused gross margin to decline to a new low of 33% of sales. However, decreases in proprietor's or manager's salary and employees' wages more than offset an increase in miscellaneous operating costs, so that total expenses fell to 29.9% of sales. This lower expense figure resulted in an improvement in net profit before taxes—up to 3.1% of total sales.

The growth rate of prescription sales again surpassed the increase in other sales, both in dollars and as a percentage. Prescription revenue accounted for more than 60% of total sales volume in the average Lilly Digest pharmacy, an 11.7% increase over that for the previous year. Other sales recorded almost a 3% gain, thereby reversing the decline reported for 1983.

The cost of goods sold figure continued an upward trend that began in 1982 and reached 67% of sales during 1984. Put another way, the gross margin declined and now is at its lowest level in 33 years.

Managers have attempted to reduce expenditures percentagewise to offset declining margins. This strategy appeared to be successful during 1984 as the decline in expenses was sufficient to result in an increase in net profit before taxes, from 2.9 to 3.1% of sales. During 1984, proprietor's or manager's salary and employees' wages, although higher dollarwise, accounted for a smaller share of the sales dollar (5.8% and 10.5% respectively). Rent was unchanged from the previous year at 2.4% of sales. Miscellaneous operating costs (including all expenses other than proprietor's or manager's salary, employees' wages, and rent) rose over $6,000, an increase of 10.7%. These costs took a larger share of the sales dollar—up from 11.0 to 11.2%.

Dollarwise, net profit before taxes was 12.1% higher than the 1983 figure (up almost $1,900). The increase in net profit was offset by the decline in proprietor's salary, with the result that total income remained at the same percentage (8.9%) reported for 1983. However, total income in dollars rose over $3,400 to surpass the $50,000 mark for the first time in Digest history.

The greater prescription revenue for the average Lilly Digest pharmacy resulted from a 1.3% increase in the number of prescriptions dispensed, accompanied by a rise of $1.11 in the average prescription charge, from $10.89 to $12. Renewed prescriptions rose to 51.4% of total prescriptions (up from 51.1%) and continued the uptrend that began five years ago. At that time, renewed prescriptions had declined steadily for over a decade. The share of renewed prescriptions is considered important, since it reflects the degree of patient loyalty enjoyed by a pharmacy. Overall, there was a gain of 372 prescriptions dispensed. The average independent community pharmacy reporting to the Lilly Digest dispensed a record 28,776 prescriptions during 1984.

Total inventory investment rose both in dollars and as a percent of sales (to over $85,000 and 15% respectively). Although both prescription and over the counter inventory required greater dollars, prescription stock decreased from 10.7% to 10.5% of prescription income, whereas general merchandise inventory increased from 20.9% to 21.7%. Consequently, the prescription department's sales productivity advanced from $9.34 to $9.50 per stock dollar. Other merchandise sales productivity fell from $4.79 to $4.60 per dollar invested in inventory.

The size of the average Lilly Digest pharmacy remained virtually unchanged during 1984 at just under 2,500 square feet. Sales productivity per square foot of selling space advanced almost $18 (up to $229.36) from the previous year—an 8.4% increase. Rent per square foot also rose, however, and now stands at $5.43. The typical Digest pharmacy was open 62 hours per week during 1984, the same figure as reported for 1983.

Balance Sheet By most measures, the average community pharmacy is well centralized and has a sound base for normal business continuation. Conservative by nature, pharmacy owners expand sales but not beyond their capacity to support them with equity. The net sales to net worth ratio has moved upward over the past decade, from 5.5 to 6.2. Put another way, each dollar of owner's equity supports just over $6.00 of sales—a very favorable ratio.

The quality of assets appears reasonable, especially since inventory, which accounts for over half of all assets, is expected to be fresh and salable as a result of rapid turnover. High interest rates have caused many pharmacists to reduce inventory investment by both increased utilization of wholesalers and accurate control systems.

High interest rates have likewise affected receivables, which are well controlled at 3.9% of sales (Table 2). Digest data indicate that fixtures and equipment have remained at about 3.5% for the past decade.

Table 1 *Current trends in pharmacy operations*

Averages per Pharmacy	1984 1,341 Pharmacies		1983 1,547 Pharmacies		Amount and Percent of Change
Sales					
Prescription	$345,435	60.5%	$309,354	58.5%	+ $36,081	11.7%
Other	225,878	39.5%	219,510	41.5%	+ $ 6,368	2.9%
Total	$571,313	100.0%	$528,864	100.0%	+ $42,449	8.0%
Cost of goods sold	382,757	67.0%	353,673	66.9%	+ $29,084	8.2%
Gross margin	$188,556	33.0%	$175,191	33.1%	+ $13,365	7.6%
Expenses					
Proprietor's or manager's salary	$ 33,301	5.8%	$ 31,775	6.0%	+ $ 1,526	4.8%
Employees' wages	60,126	10.5%	57,323	10.8%	+ $ 2,803	4.9%
Rent	13,428	2.4%	12,489	2.4%	+ $ 939	7.5%
Heat, light, and power	4,934	0.9%	4,617	0.9%	+ $ 317	6.9%
Accounting, legal, and other professional fees	2,529	0.4%	2,603	0.5%	− $ 74	2.8%
Taxes (except on buildings, income, and profit) and licenses	8,896	1.5%	8,074	1.5%	+ $ 822	10.2%
Insurance (except on buildings)	5,958	1.0%	5,544	1.0%	+ $ 414	7.5%
Interest paid	4,555	0.8%	4,099	0.8%	+ $ 456	11.1%
Repairs	2,233	0.4%	1,977	0.4%	+ $ 256	13.0%
Delivery	2,347	0.4%	2,262	0.4%	+ $ 85	3.8%
Advertising	6,033	1.1%	5,658	1.1%	+ $ 375	6.6%
Depreciation (except on buildings)	6,945	1.2%	5,663	1.1%	+ $ 1,282	22.6%
Bad debts charged off	1,029	0.2%	751	0.1%	+ $ 278	37.0%
Telephone	2,177	0.4%	1,948	0.4%	+ $ 229	11.8%
Miscellaneous	16,690	2.9%	14,908	2.8%	+ $ 1,782	12.0%
		11.2%		11.0%		
Total expenses	$171,181	29.9%	$159,691	30.2%	+ $11,490	7.2%
Net profit (before taxes)	$ 17,375	3.1%	$ 15,500	2.9%	+ $ 1,875	12.1%
Add proprietor's withdrawals	33,301	5.8%	31,775	6.0%	+ $ 1,526	4.8%
Total income of self-employed proprietor (before taxes on income and profits)	$ 50,676	8.9%	$ 47,275	8.9%	+ $ 3,401	7.2%
Value of inventory at cost and as a percent of sales					
Prescription	$ 36,343	10.5%	$ 33,132	10.7%	+ $ 3,211	9.7%
Other	49,115	21.7%	45,814	20.9%	+ $ 3,301	7.2%
Total	$ 85,458	15.0%	$ 78,946	14.9%	+ $ 6,512	8.3%
Annual rate of turnover of inventory	4.6 times		4.6 times			
Size of area and sales per square foot*	sq. ft.		sq. ft.			
Prescription	398	$867.31	390	$787.95	+ 8	2.1%
Other	2,073	106.81	2,089	103.94	− 16	0.8%
Total	2,471	229.36	2,479	211.56	− 8	0.3%
Sales per dollar invested in inventory					
Prescription	$9.50		$9.34		+ $ 0.16	1.7%
Other	4.60		4.79		− $ 0.19	4.0%
Net profit per dollar invested in inventory	$0.203		$0.196		+ $ 0.007	3.6%
Number of prescriptions dispensed					
New	13,975	48.6%	13,887	48.9%	+ 88	0.6%
Renewed	14,801	51.4%	14,517	51.1%	+ 284	2.0%
Total	28,776	100.0%	28,404	100.0%	+ 372	1.3%
Prescription charge	$12.00		$10.89		+ $ 1.11	10.2%
Number of hours per week					
Pharmacy was open	62 hours		62 hours		no change	
Worked by proprietor	48 hours		47 hours		+ 1	2.1%
Worked by employed pharmacist(s)	38 hours		39 hours		− 1	2.6%

*Based on averages of pharmacies that reported all data

NOTE: These national averages are presented to give a composite picture of the average LILLY DIGEST pharmacy. Comparisons for analysis should be based on the operations of pharmacies of comparable sales and prescription size which appear in one of the 26 arrangements in the Self-Analysis section of the LILLY DIGEST.

Table 2 *Current trends in balance sheet information and financial ratios*

Averages per Pharmacy	December 31, 1984 (948 Pharmacies)	Percent of Sales	December 31, 1983 (1,178 Pharmacies)	Percent of Sales	Amount and Percent of Change
Assets					
Current assets					
Cash	$ 16,380— 12.8%	3.6%	$ 15,096— 12.2%	3.4%	+ $ 1,284— 8.5%
Accounts receivable	18,063— 14.2%	3.9%	16,656— 13.5%	3.7%	+ $ 1,407— 8.5%
Inventory	69,873— 54.7%	15.2%	68,190— 55.3%	15.3%	+ $ 1,683— 2.5%
Total current assets	$104,316— 81.7%	22.7%	$ 99,942— 81.0%	22.4%	+ $ 4,374— 4.4%
Fixed assets					
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	17,581— 13.8%	3.8%	16,750— 13.6%	3.7%	+ $ 831— 5.0%
Other assets					
Prepaid expenses, deposits, etc.	5,723— 4.5%	1.3%	6,654— 5.4%	1.5%	− $ 931—14.0%
Total assets*	$127,620—100.0%	27.8%	$123,346—100.0%	27.6%	+ $ 4,274— 3.5%
Liabilities					
Current and accrued liabilities					
Accounts payable	$ 19,470— 15.3%	4.3%	$ 19,204— 15.6%	4.3%	+ $ 266— 1.4%
Notes payable (within one year)	6,894— 5.4%	1.5%	6,825— 5.5%	1.5%	+ $ 69— 1.0%
Accrued expenses and other liabilities	6,934— 5.4%	1.5%	6,927— 5.6%	1.6%	+ $ 7— 0.1%
Total current and accrued liabilities	$ 33,298— 26.1%	7.3%	$ 32,956— 26.7%	7.4%	+ $ 342— 1.0%
Long-term liabilities					
Notes payable (later than one year)	19,835— 15.5%	4.3%	19,750— 16.0%	4.4%	+ $ 85— 0.4%
Total liabilities	$ 53,133— 41.6%	11.6%	$ 52,706— 42.7%	11.8%	+ $ 427— 0.8%
Net Worth	74,487— 58.4%	16.2%	70,640— 57.3%	15.8%	+ $ 3,847— 5.5%
Total liabilities and net worth*	$127,620—100.0%	27.8%	$123,346—100.0%	27.6%	+ $ 4,274— 3.5%
Net working capital	$ 71,018	15.5%	$ 66,986	15.0%	+ $ 4,032— 6.0%
Sales	$458,410	100.0%	$446,556	100.0%	+ $11,854— 2.7%
Purchases	$310,423	67.7%	$301,467	67.5%	+ $ 8,956— 3.0%
Net profit (before taxes)	$ 16,019	3.5%	$ 14,979	3.4%	+ $ 1,040— 6.9%
Financial Ratios					
Current assets to current liabilities	3.1 times		3.0 times		
Net sales to net worth	6.2 times		6.3 times		
Net profit (before taxes) on net worth	21.5%		21.2%		
Total debt to net worth	71.3%		74.6%		

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

On the liability side, payables at 4.3% of sales are at a record low level after a steady five-year decline. Total debt to net worth moved to 71.3% and the current ratio improved to 3.1 times. Other significant ratios show little change. Each pharmacy owner must evaluate the return generated by the operation, with all its attendant risks, in relation to other investments. During 1984, the average pharmacy returned 21.5% on equity, up from the prior year's figure of 21.2%.

Current Trends Affecting Community Pharmacy Practice

Jean Paul Gagnon, Ph.D.*

Numerous developments, such as the advent of Preferred Provider Organizations (PPO's), the growth in Health Maintenance Organizations (HMO's), and new third party cost containment strategies are influencing community pharmacy practice. This article identifies some of these and discusses their economic impact on the operation of a community pharmacy. Although many external factors shape a pharmacy's destiny, the focus of this presentation will be limited to legislative, marketing, and third party matters.

Legislative Trends

Congress will continue its preoccupation with the budget deficit and tax reform in the short term. The movement to remove the federal government presence from various programs and turn their administration over to states will probably continue. Departments such as Health and Human Services (HHS) and the Health Care Financing Administration (HCFA) will advise state health program administrators on possible ways to reduce drug costs in Medicaid and other government programs. For example, HCFA distributed to state Medicaid directors a report from the Office of Inspector General (OIG) which suggested that average wholesale prices (AWP) be abandoned in favor of lower rates. They then issued a notice that states adopt the OIG guidelines by October 1, 1985. National pharmacy associations responded by filing a suit seeking an injunction to postpone the October 1 deadline. As a result of this action, HCFA rescinded its proposal, and the national pharmacy associations withdrew their suit. A key point was whether adopting the OIG directive constituted federal rule making. Specifically, HCFA had not held a hearing and thus had not allowed pharmacy the opportunity to present its views. It is conceivable that when a new Secretary of Health is appointed and a new Chief Executive at HCFA is found, new regulations adopting the OIG's recommendation will be issued, a hearing will be held, and a new reimbursement rule will be issued. Legislative affairs personnel in national pharmacy associations should continue to monitor developments at HCFA.

Marketing Trends

An important trend that should be considered by pharmacists is the growth rate of prescription sales. Figure 1 shows that prescription sales among pharmacies submitting their data to the Lilly Digest over the last ten years have been increasing at a rate higher than inflation, especially during the last three years.

This growth rate can be explained partly by increases in manufacturers' prices and partly by a small growth in the number of prescriptions dispensed.

The data in Figure 2 depict the percentage change in total annual prescription volume for the average pharmacy submitting data to Lilly Digest. It shows that during the early 1980s there was a significant increase in volume, as seen in 1983, which represents a 3.3% increase in the total number of prescriptions dispensed.

The 3% increase observed in 1983 may be the beginning of a growth trend in the number of prescriptions dispensed. It is probable that the total number of prescriptions dispensed in the United States will rise from 1.5 billion in 1985 to over 2 billion by the year 2000 because of a significant growth in America's population in the 65 and over age group and an increase in the number of children under ten years of age. It must not be forgotten that a pharmacy's geographical location has a direct bearing on prescription volume. Pharmacies located in retirement areas will most likely experience an increase in prescription volume. In addition, a number of new products have been released that have generated high volumes, and the Drug Price Competition and Patent Term Restoration Act of 1984 may prompt companies to develop new products or produce generic drugs. Overall, the outlook is good for moderate growth in the number of prescriptions dispensed in the United States.

The next question is: "Where will these prescriptions be dispensed?" One way to answer this question is

Figure 1

Percentage Change in Prescription Sales

Year	'73	'74	'75	'76	'77	'78	'79	'80	'81	'82	'83
Independents	8.7	6.3	9.6	7.6	5.8	8.7	10.4	9.1	12.5	13.8	13.5
Chains	6.2	14.7	6.0	8.4	8.8	8.2	8.8	9.6	16.0	15.2	12.5

Source: LILLY DIGEST; *NACDS-Lilly Digest*

*Jean Paul Gagnon, Ph.D., is Professor of Pharmacy Administration at the University of North Carolina at Chapel Hill.

change in selling space. The average size of a community pharmacy submitting data to *Lilly Digest* has been relatively constant since 1974 at approximately 2,400 square feet—even though sales volume has increased about 110%. Even with this, many independent pharmacies are becoming either less competitive. Furthermore, many have carved out niches in rural areas or in ideal locations. A shakeout in the number of independents located in small town or less-than ideal locations has been ongoing over the last 15 years but may now be almost complete.

The size of chain units hovered at 9,000 square feet until 1982. However, in 1983, the average size of chain stores submitting information to the *Lilly Digest* fell to slightly below 8,000 square feet. This change could indicate that chain organizations are opening smaller, "bantam" size pharmacies in less populated communities. There appears to be a trend away from conventional size units (8,500 to 15,000 square feet). These smaller units could be very competitive for independent operators.

It is also interesting to observe the changes that are occurring in the distribution of prescription and other sales between chain and independent pharmacies. The percentage of prescription sales to total sales in the independent pharmacy has grown from 47.9% in 1974 to 60.5% in 1984. Thus, many independents are abandoning their OTC and front-end business to chain pharmacies, mass merchandisers, and grocery stores. Chains have increased their share of prescription sales but at a lower rate than independents—from 16.5% in 1974 to 22.5% in 1983. Independent pharmacies seem to have found their future growth to prescription volume, which may increase over the next 15 years.

Figure 2

Percentage Change in Prescription Volume

Year	'73	'74	'75	'76	'77	'78	'79	'80	'81	'82	'83
Independents	5.0	0.3	1.8	−1.5	−1.9	1.0	1.0	−0.2	0.4	1.0	3.3
Chains	1.0	7.3	−3.0	−0.4	1.0	0.9	−0.6	−0.7	0.5	−0.5	0.4

Source: Lilly Digest: *NACDS-Lilly Digest*

Figure 3

Percentage Change in Number of United States Pharmacies

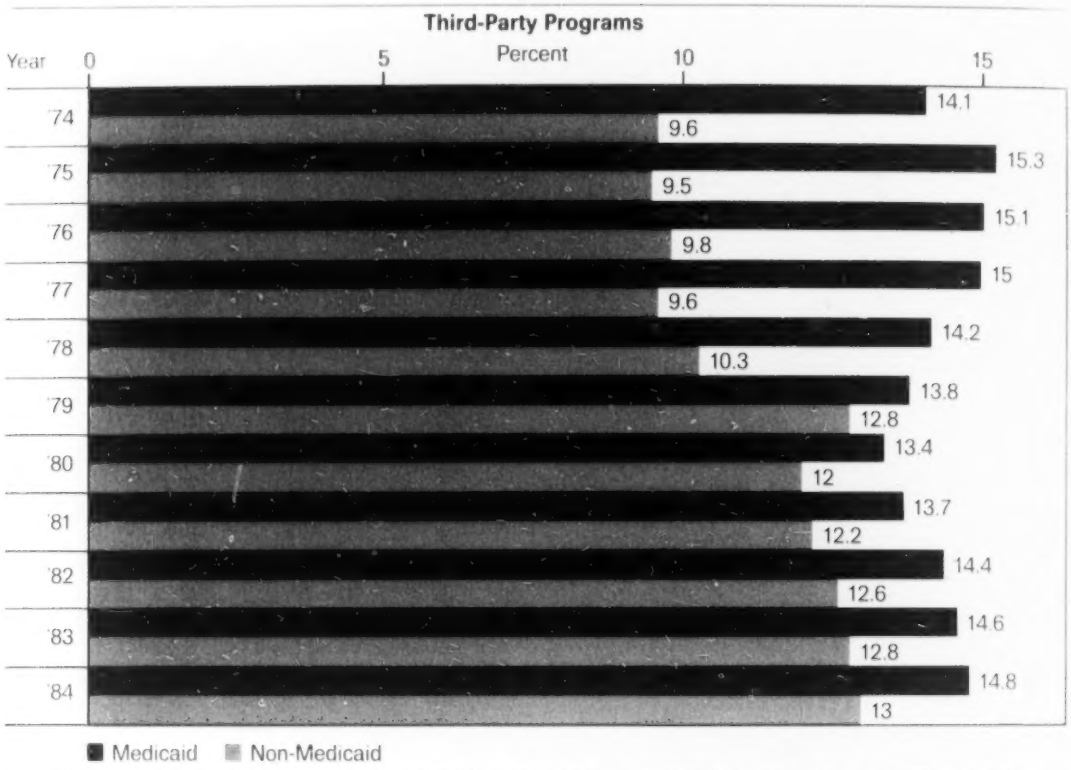
Year	'75	'76	'77	'78	'79	'80	'81	'82	'83
Independents	−2.9	0.6	−5.1	−1.2	−2.1	2.0	0.8	−4.6	1.5
Chains	5.1	1.6	4.4	1.2	2.7	−2.0	−1.0	11.5	−2.3

Source: American Druggist, Complete Findings of AD's Annual Prescription Survey, Vol. 173, p. 43, June, 1976; Statistical Abstracts of the United States: 1984, 104th Edition, p. 6; and Drug Store News, pp.48–49, April 30, 1984.

Third-Party Prescription Program Trends

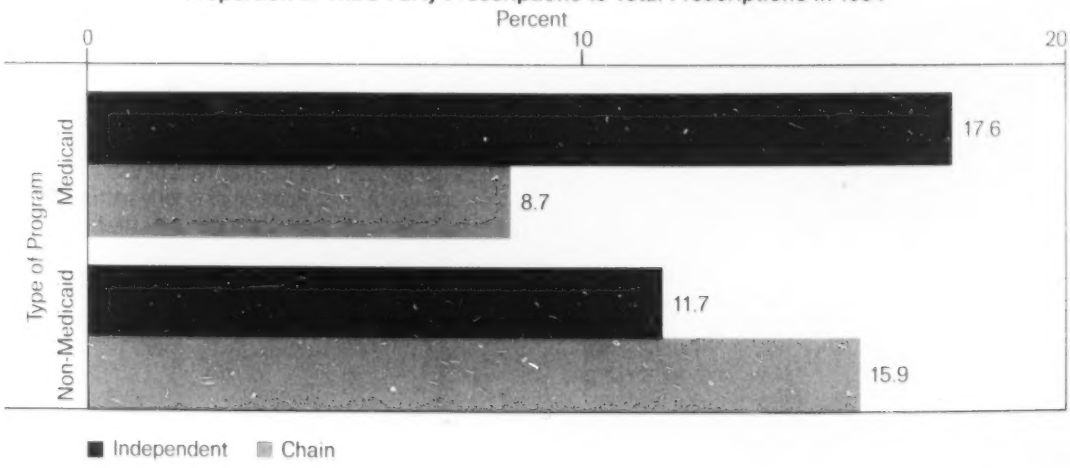
A

Figure 4



Source: American Druggist, Vol. 169, p. 22, April, 1974; Vol. 72, p. 56, August, 1975; Vol. 173, p. 42, June, 1976; Vol. 175, p. 47, May, 1977; Vol. 177, p. 10, May, 1978; Vol. 179, p. 16, May, 1979; Vol. 181, p. 14, May, 1980; Vol. 183, p. 14, May, 1981; Vol. 187, p. 12, May, 1983; Vol. 189, p. 14, May, 1984; Vol. 191, p. 17, May, 1985.

Figure 5



Source: American Druggist, Vol. 191, p. 17, May, 1985.

Summary

How to Calculate the Cost of Dispensing Prescriptions

Kenneth W. Kirk, Ph.D.*

It has been some 30 years since the notion of fee for service relative to prescription dispensing was introduced. Central to this idea is the cost of dispensing and a method to determine it. Calculation of the profit margin to be added to the cost of dispensing figure to convert it to a dispensing fee is, of course, the final exercise. It has long been recognized that there is more than one way to calculate a pharmacy's cost of dispensing. The fact that there are numerous methods available explains why no trend data exist to track what has happened to prescription department operating expenses over the years.

Third-Party Interest in Cost of Dispensing

Considerable attention is being directed today to the determination of what it costs to dispense a prescription and how one goes about making such a calculation. Interest in "cost of dispensing" arises from the fact that federal guidelines for Medicaid reimbursement encourage state Medicaid agencies to utilize results of cost of dispensing surveys to determine what dispensing fee will be reimbursed to those pharmacies participating in their program.

The three elements of a prescription price are: (1) the acquisition cost of the dispensed drug product; (2) the operating expenses incurred by the owner while dispensing the prescription; and (3) a profit component that represents an equitable return to the pharmacy for the time and investment involved in the dispensing of a prescription. A pharmacy owner must understand how all three elements will be determined before evaluating a particular third-party program.

Surprisingly enough, often there is confusion about just what the cost of dispensing represents. Cost of dispensing, simply stated, is a process of allocating operational costs to the prescription department of the pharmacy. However, when the concept was initially used in the 1970's, it typically was viewed as being synonymous with a dispensing fee. A separate profit component must be calculated and added to the cost of dispensing to arrive at a dispensing fee. If a pharmacy owner used the cost of dispensing as the dispensing fee, he would be operating only at his break-even point and at the end of the year would show neither a profit nor a loss in his prescription department operations. To do so, of course, would be a poor use of funds, which, instead, could be allocated to generate a substantial return in other investment opportunities.

There can be a difference in viewpoints between third-party program administrators and pharmacy owners concerning how prescription department operational expenses should be calculated. Program administrators may assume that the prescription department is no more or less important than any other department in the pharmacy. In most community pharmacies, however, the prescription department is the heart of the business and carries far more importance than any other department in the pharmacy.

Determining the Importance of the Prescription Department

The annual Lilly Digest has illustrated for years the importance of the prescription department to the overall profitability of the entire store. The 1985 Lilly Digest, for example, reveals that for the average community pharmacy in its sample, the prescription department generated sales of over $867 per square foot as compared with only $107 for other merchandise in the pharmacy. Historically, community pharmacies have had to stock other merchandise in order to generate sufficient sales volume to stay in business, but there seems to be little question that the majority exist to provide prescription related services to the public.

This concept is overriding when a pharmacy owner determines an equitable method to allocate expenses to the prescription department. Although it is possible to argue that many expenses should be allocated on the basis of floor area, this method ignores the inherent importance of the prescription area. This difference of opinion, however, is one reason why there is no one best way to calculate a pharmacy's cost of dispensing prescriptions.

Incidentally, if the owner overestimates this importance, his prescription prices will be higher than his clientele are willing to pay and he will be at a serious competitive disadvantage.

Types of Expenses to Be Allocated

Pharmacy owners must allocate their operational expenses to three categories: (1) personnel who work in the prescription department; (2) nonperson

*Kenneth W. Kirk, Ph.D., Associate Dean and Clifford L. Kinge, Jr., Centennial Professor in Pharmacy Administration, College of Pharmacy, The University of Texas at Austin.

Prescription Department Personnel Expenses

Prescription related tasks can be separated into at least seven general categories: (1) receiving, filing, compounding, and dispensing prescription orders, including the maintenance of patient medication profiles; (2) providing drug related information to patients in the pharmacy and to patients and other health professionals over the phone; (3) preparing, ordering, and checking in prescription drug inventory, including the time needed to stock the shelves and handle return goods merchandise; (4) completing third party prescription drug claim forms for submission for payment, verifying claims paid, and resubmitting claims not paid; (5) conducting annual inventory tallies, including controlled substances inventory and record keeping as required by law; (6) maintenance of accounts receivable for prescription drugs purchased on account; and (7) general maintenance of the prescription department work areas. The easiest way for managers to make time allocations is to estimate the percentage of each employee's time that is devoted to these tasks.

Prescription Department Expenses

Non-Prescription-Related Expenses

Once all the personnel expenses have been allocated and the direct expenses associated with operating the prescription department have been isolated, the remaining operating expenses must be apportioned to the prescription department. There are two common methods of allocation—one is to use a ratio of prescription sales to total pharmacy sales and the other is to employ a ratio of square feet of prescription department to square feet of the total pharmacy.

One expense that should be handled in a unique manner is computer rental or depreciation on a computer if it has been purchased by the owner. Obviously, if the computer is used only in the prescription department, it is a direct expense and no allocation is necessary. However, most pharmacy owners use a computer for some activities unrelated to the prescription department, for example, ordering inventory for the entire pharmacy and handling accounts receivable. Since the computer represents a significant expenditure, its expense should be allocated in a meaningful manner. Basically, the owner needs to determine how much a program costs, then categorize each cost according to its use. Inventory ordering and accounts receivable program costs should be determined by a ratio of prescription sales to total sales, whereas drug interaction and patient medication profile programs are direct expenses.

Most other expenses should be assigned according to the ratio of prescription sales to total sales, because this ratio represents an assessment of how important the prescription department is to the entire business. In the average Lilly Digest pharmacy, this ratio is about 60%.

There are a few expenses that should be associated with the size of the pharmacy, primarily those related to the building in which the pharmacy is housed. However, a sound argument can be made that if a pharmacist owns the building, he should create a separate business entity to maintain the building. The pharmacy then should pay rent to that business to cover all insurance, maintenance, investment costs, and depreciation expenses.

Converting a Cost-of-Dispensing Figure to a Dispensing Fee

Before determining the profit component of a prescription charge, a pharmacy owner must develop a personal philosophy toward the type of pricing method he believes is consistent with his professional practice. Over the past two decades, considerable attention has been given to the professional fee concept, whereby a fixed amount is added to the drug cost to arrive at the selling price of the prescription. Although sound in theory from the perspective of a professional providing services to patients, it ignores the business reality of earning a return on investment—from investment in inventory, for example.

A logical approach to pricing prescriptions may be to structure a graduated fee scale in which the fee increases as the cost of the drug product to the pharmacist goes up. Since the cost of dispensing is a fixed amount that should be recovered each time a prescription is dispensed, a graduated fee incorporates a variable net profit to determine the dispensing fee for a given prescription. With this pricing method, the prescription price would consist of the sum of three figures: (1) acquisition cost of the drug product being dispensed; (2) the cost of dispensing for the pharmacy; and (3) a percentage of the acquisition cost, representing the profit component. Of course, the owner can use whatever percentage figure he thinks is competitive, fair, and equitable. It is not the intent of this article to recommend a particular figure or even to apply a percentage to the acquisition cost but rather to consider basing a profit component on the concept of return on investment in order to permit the owner to remain in business.

Illustration

Let's create a hypothetical pharmacy operation to illustrate how a cost-of-dispensing figure using the allocation methods just described may be calculated. Baker Pharmacy is owned and operated by Sally Baker. Last year, the pharmacy dispensed 28,000 prescriptions. The pharmacy is only 1,200 square feet in total floor space, with 40% of that space being occupied by the prescription department.

Sally employs one pharmacist who works 30 hours per week in the prescription department at a salary of $22,500 (including benefits and payroll taxes). One of her clerks works in the prescription department an average of 20 hours per week at a wage of $7.50 per hour (including benefits and payroll taxes). The employee performs such tasks as deliveries, filling out and submitting third-party claim forms, and assisting the pharmacist during particularly busy times by entering data in the computer for purposes of label making and recording for the patient medication profile. Sally pays herself a salary of $36,000, and she estimates that she spends 75% of her time on prescription-related activities.

Baker Pharmacy's cost of dispensing can be calculated from information found in the income statement shown below. The actual calculation will be done in a stepwise manner to show how the various allocations are made.

BAKER PHARMACY
Income Statement
for the Year Ending 1984

Prescription sales	$300,000	
Nonprescription sales	75,000	
Total sales		$375,000
Cost of goods sold		240,000
Gross margin		$135,000
Operating expenses		
Proprietor's salary	$ 36,000	
Employees' wages	32,000	
Computer lease	7,200	
Prescription containers/labels	4,200	
Delivery	2,000	
Depreciation	3,000	
Miscellaneous prescription department expenses	600	
Rent	10,500	
Accounting/legal fees	2,000	
Advertising	3,750	
Bad debts	800	
Insurance	3,500	
Interest paid	4,500	
Repairs	1,200	
Utilities (including phone)	6,400	
Miscellaneous	3,350	
Total expenses		$121,000
Net profit		$ 14,000

Step 1: Personnel Expenses Allocated to the Prescription Department

Sally Baker, owner:
$36,000 × 75% $27,000
Employed pharmacist:
$22,500 × 100% $22,500
Employee clerical:
$7.50 × 20 hr/wk × 52 wks/yr ..... $ 7,800
Total personnel expenses $57,300

Step 2: Direct Prescription Department Expenses

–Sally Baker utilizes a computer to maintain her patient medication profiles and to prepare her third party prescription claim forms for submission. She leases her computer at a cost of $600 per month. Since the computer is used only in the prescription department this is a direct expense and no allocation needs to be made. The total expense for the computer lease was $7,200.

–Records reveal that $4,200 was spent during the year purchasing plastic vials and other prescription containers along with labels, printed prescription blanks for phoned prescription orders, and other materials needed to function in the prescription department.

–Baker Pharmacy provides free delivery to patients as long as one of the items being delivered is prescription medication, therefore making delivery a direct expense to the prescription department. These deliveries are made once a day by the clerk who operates the prescription department, and they are included in the calculation of the 20 hours per week she spends during prescription related activities. The total delivery expense for the year was $2,000.

Depreciation expense for the entire pharmacy was $3,000, but when it was determined solely for the delivery vehicle and the prescription department fixtures and equipment, the amount was only $1,800.

Miscellaneous prescription department expenses were $600 and included maintenance insurance premiums on pharmacy licenses required to dispense legend drugs and controlled substances, and continuing education expenses for Sally Baker and her employed pharmacist.

–Total direct prescription department expenses $15,600

Step 3: Expenses Associated with the Building

–Sally Baker does not own the building in which her pharmacy is housed; therefore, her only building related expense is the rent. This allocation involves including 40% of the rent since the prescription department occupies 40% of the total floor space in the pharmacy.
$10,500 × 40% ..... $ 4,200

Step 4: Expenses Allocated by Ratio of Prescription Sales to Total Pharmacy Sales

All of the remaining expenses are allocated to the prescription department by using the percentage of total sales that are for prescriptions, which is 80% for the Baker Pharmacy. These expenses represent general operating expenses that occur as a result of simply operating the business, and the ability to pay them depends on the success of the pharmacy in generating the necessary revenue through sales.

$25,500 × 80% $20,400

Total expenses allocated to the prescription department $97,700

Cost of dispensing a prescription ($97,700/28,000 Prescriptions) ..... $ 3.489

Profit Earned on Prescription Sales

Sally Baker's goal at the beginning of the year was for the prescription department to generate a net profit equal to a 10% net markup on cost. The following calculation was made to see how close she came to reaching her goal.

Average prescription price $10.714
($300,000 prescription sales/28,000 prescriptions dispensed for year)

Gross margin from the prescription department ..... $ 4.226
(Records showed the gross margin was 40% for prescription sales.)

Cost of goods sold in the prescription department ..... $ 6.488

Net profit earned in the prescription department (gross margin minus cost of dispensing) ..... $ 0.737

Net markup on cost percentage ($0.737/$6.488) 12.4%

Net profit as a percent of sales ($0.737/$10.714) 7.4%

Thus, Sally Baker has met her goal of 10% net markup on cost. Also, her net profit of 7.4% shows the business to be stable. Had she wanted to utilize a fixed dispensing fee which would have generated an average 10% net markup on cost for the year, that fee would have been $4.13. The calculation is as follows:

Average prescription ingredient cost = $6.488
10% net markup on cost ..... $ 0.649

Cost of dispensing a prescription ..... $ 3.489

Fixed dispensing fee yielding a 10% net markup on cost ..... $ 4.138

Summary

Calculating the cost of dispensing figure for a pharmacy is more than just a mathematical exercise. The key lies in having adequate financial records to permit the allocation of costs to the prescription department. The specific formula used to determine the cost of dispensing will vary, depending on the concept of the relative importance of the prescription department to the entire pharmacy operation. Likewise, methods for converting the cost of dispensing statistic to a dispensing fee will vary according to business philosophy and goals. In all cases, however, the calculations should be logical and consistent with sound business practices. Pharmacists who know what it costs them to dispense a prescription have greater control over their pharmacy operations because they are in a better position to adjust quickly to changes in the marketplace. Cost of dispensing is another "tool" available to those pharmacists who have learned that you cannot plan for tomorrow unless you know where you are today.

Sales Volume Summary

A major objective of pharmacy management is to maximize sales. Equally important is the need to control operating and merchandising costs so that an adequate net profit and return on investment are realized. Since sales volume and operating figures vary among different types of pharmacies, consideration should be given to the kind of operation being studied when the data are used for comparative purposes.

Table 3 illustrates how selected major operating statistics differ in relation to total sales. As noted in previous years, gross margin and total expenses decline percentagewise overall when total sales rise. However, net profit tends to shrink at the higher sales volumes since the decline in the total expense percentage was not sufficient to offset the lower gross margin. The impact of the total wage package on total expenses can be observed in Table 3. Percentagewise, as sales increase, employees' wages tend to rise, whereas proprietor's salary declines. Because the total wage package is an important component of total expenses and, therefore, affects net profit, management should try to gear wage expense to greater employee productivity.

Gross Margin As sales grow, the gross margin tends to decrease as a percent of sales. Table 3 shows how gross margin also seems to decline when the ratio of prescription sales to total sales falls. Stores with fewer than $200,000 in sales reported prescription income of 75% of sales and a gross margin of 35.8%; units with income in excess of $1,500,000 posted prescription activity amounting to 42.7% of sales and a gross margin of 30.7%. These data suggest that the sales mix changes as volume increases, with the larger stores showing a greater proportion of general merchandise sales and a corresponding decline in gross margin.

Expenses Total expenses appear high as a percent of sales when annual sales are less than $200,000, particularly in newly opened units, because many of the expenses incurred by a pharmacy are fixed in nature and the sales potential has not yet been reached. As sales volume rises, however, the percentage declines from 35 to 28.9%.

Compensation As sales volume increases, there is a substantial difference between the trends of employees' wages and proprietor's salary. Proprietor's salary grows dollarwise from over $21,000 in the lowest volume stores to above $54,000 in the largest operations. However, percentagewise, this expense declined from 13.2 to 2.9% of sales. Employees' wages, on the other hand, went from 6.6% in pharmacies with sales under $200,000 to 12.3% in stores with revenue in excess of $1,500,000. The larger expenditure for employees' wages may coincide with the larger staff needed to accommodate the longer business hours, especially employed pharmacists.

Miscellaneous Operating Costs This expense statistic fluctuates within a relatively narrow range and shows no definitive trend as sales volume increases. However, since these costs represent about one-third of total expenses, control of the individual items that constitute this expense category must be maintained to assure acceptable profit levels.

Rent Percentagewise, rent remains relatively constant as sales volume rises. Rent tends to appear high as a percent of sales in newer pharmacies because of the fixed rental charge when the sales potential has yet to be attained. Rental expenditures also vary according to size and location of the pharmacy. A more detailed discussion of rent can be found on pages 26 and 27.

Net Profit The difference between gross margin and total expenses—net profit—is not clearly related to sales volume. It is interesting to note that pharmacy operations at the higher and lower ends of the sales volume range tend to report a smaller net profit as a percent of sales. A further discussion of net profit appears on page 25.

Inventory The ability of management to control this asset, the largest investment of the typical pharmacy, can make the difference between a profitable business and one that operates at a loss. A successfully implemented inventory control program takes into account such things as purchasing trends commensurate with sales, seasonal variation, changing usage patterns, and monitoring for shrinkage. Management's continuing challenge is to keep inventory investment at the lowest level possible to support advancing sales trends without compromising customer service.

One method of assessing the effectiveness of an inventory control program is the "turnover ratio." The turnover rate represents the number of times the average inventory is sold and replaced during the year. Table 3 indicates that the turnover rate tends to increase with growth in total sales even though the inventory dollar investment rises.

Pharmacy Hours During 1984, the average Lilly Digest pharmacy was open 62 hours per week—unchanged from the previous year (Table 1). In Table 3, the number of hours a store is open is directly

Table 3 *Summary of sales volume in 1984*

Averages per Pharmacy	Total Sales Under $200,000 (108 Pharmacies)	Total Sales $200,000 to $250,000 (100 Pharmacies)
Sales		
Prescription	$121,553— 75.0%	$165,110— 72.7%
Other	40,499— 25.0%	62,054— 27.3%
Total	$162,052—100.0%	$227,164—100.0%
Cost of goods sold	103,995— 64.2%	145,201— 63.9%
Gross margin	$ 58,057— 35.8%	$ 81,963— 36.1%
Expenses		
Proprietor's or manager's salary	$ 21,430— 13.2%	$ 24,367— 10.7%
Employees' wages	10,649— 6.6%	16,756— 7.4%
Rent	5,847— 3.6%	6,247— 2.7%
Miscellaneous operating costs	18,866— 11.6%	26,173— 11.6%
Total expenses	$ 56,792— 35.0%	$ 73,543— 32.4%
Net profit (before taxes)	$ 1,265— 0.8%	$ 8,420— 3.7%
Add proprietor's withdrawals	21,430— 13.2%	24,367— 10.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 22,695— 14.0%	$ 32,787— 14.4%
Value of inventory at cost and as a percent of sales		
Prescription	$ 18,006— 14.8%	$ 21,275— 12.9%
Other	11,283— 27.9%	18,900— 30.5%
Total	$ 29,289— 18.1%	$ 40,175— 17.7%
Annual rate of turnover of inventory	3.6 times	3.7 times
	sq. ft.	sq. ft.
Size of area and sales per square foot*	1,228 $131.96	1,440 $157.91
Rent per square foot*	$4.76	$4.33
Number of prescriptions dispensed		
New	5,532— 51.8%	6,937— 49.2%
Renewed	5,140— 48.2%	7,171— 50.8%
Total	10,672—100.0%	14,108—100.0%
Prescription charge	$11.39	$11.70
Number of hours per week		
Pharmacy was open	51 hours	53 hours
Worked by proprietor	46 hours	48 hours
Worked by employed pharmacist(s)	7 hours	12 hours

*Based on averages of pharmacies that reported all data

related to sales volume. Pharmacies with less than $450,000 in sales were open fewer than 60 hours per week. Those with sales between $450,000 and $1,000,000 were open from 60 to 68 hours per week. Above the $1,000,000 level, the average hours of store operation ranged from 71 to 74. The decision to remain open longer hours must include a projection of sales productivity and the additional expense generated in order to measure the impact on profitability.

Employed pharmacist hours worked per week were generally lower during 1984 when compared with similar sales sized stores for 1983. This probably reflects the expanded use of auxiliary personnel and/or mechanical methods to increase productivity.

Total Sales $250,000 to $300,000 (116 Pharmacies)	Total Sales $300,000 to $350,000 (98 Pharmacies)	Total Sales $350,000 to $400,000 (111 Pharmacies)	Total Sales $400,000 to $450,000 (109 Pharmacies)
$200,071— 72.2%	$220,708— 68.0%	$251,706— 67.4%	$291,605— 68.3%
76,896— 27.8%	103,776— 32.0%	121,722— 32.6%	135,635— 31.7%
$276,967—100.0%	$324,484—100.0%	$373,428—100.0%	$427,240—100.0%
183,823— 66.4%	213,204— 65.7%	243,633— 65.2%	279,886— 65.5%
$ 93,144— 33.6%	$111,280— 34.3%	$129,795— 34.8%	$147,354— 34.5%
$ 25,844— 9.3%	$ 27,154— 8.4%	$ 30,069— 8.1%	$ 29,152— 6.8%
19,644— 7.1%	27,138— 8.4%	34,896— 9.3%	38,751— 9.1%
7,335— 2.6%	8,391— 2.6%	8,882— 2.4%	10,502— 2.5%
30,745— 11.1%	40,002— 12.3%	44,035— 11.9%	49,304— 11.5%
$ 83,568— 30.1%	$102,685— 31.7%	$117,882— 31.7%	$127,709— 29.9%
$ 9,576— 3.5%	$ 8,595— 2.6%	$ 11,913— 3.1%	$ 19,645— 4.6%
25,844— 9.3%	27,154— 8.4%	30,069— 8.1%	29,152— 6.8%
$ 35,420— 12.8%	$ 35,749— 11.0%	$ 41,982— 11.2%	$ 48,797— 11.4%
$ 25,621— 12.8%	$ 26,179— 11.9%	$ 30,035— 11.9%	$ 32,757— 11.2%
21,743— 28.3%	28,038— 27.0%	30,697— 25.2%	34,980— 25.8%
$ 47,364— 17.1%	$ 54,217— 16.7%	$ 60,732— 16.3%	$ 67,737— 15.9%
4.0 times	4.0 times	4.1 times	4.3 times
sq. ft. 1,553 $178.28	sq. ft. 1,743 $185.94	sq. ft. 1,932 $193.46	sq. ft. 2,129 $200.88
$4.72	$4.81	$4.59	$4.93
8,249— 47.2%	8,923— 48.8%	9,242— 44.6%	11,241— 47.4%
9,215— 52.8%	9,344— 51.2%	11,493— 55.4%	12,455— 52.6%
17,464—100.0%	18,267—100.0%	20,735—100.0%	23,696—100.0%
$11.46	$12.08	$12.14	$12.31
55 hours	57 hours	58 hours	59 hours
49 hours	49 hours	48 hours	47 hours
14 hours	16 hours	25 hours	28 hours

The hours worked by employed pharmacists as well as the hours a store is open may differ according to prescription activity and location.

The average prescription charge increased 10.2% during 1984, to $12—up $1.11 from the 1983 figure. The upward trend observed in the average prescription charge over the past several years is occasionally cited as evidence that prescription prices are rising. The data cannot support such a conclusion, since the average prescription charge includes other variables in addition to price—notably, the number of doses dispensed.

Table 3 *Summary of sales volume in 1984 (continued)*

Averages per Pharmacy	Total Sales $450,000 to $500,000 (84 Pharmacies)		Total Sales $500,000 to $600,000 (151 Pharmacies)	
Sales				
Prescription	$310,078	66.1%	$349,534	64.2%
Other	159,380	33.9%	195,265	35.8%
Total	$469,458	100.0%	$544,799	100.0%
Cost of goods sold	312,553	66.6%	362,734	66.6%
Gross margin	$156,905	33.4%	$182,065	33.4%
Expenses				
Proprietor's or manager's salary	$ 30,080	6.4%	$ 33,763	6.2%
Employees' wages	47,462	10.1%	56,577	10.4%
Rent	9,987	2.1%	12,634	2.3%
Miscellaneous operating costs	51,009	10.9%	61,559	11.3%
Total expenses	$138,538	29.5%	$164,533	30.2%
Net profit (before taxes)	$ 18,367	3.9%	$ 17,532	3.2%
Add proprietor's withdrawals	30,080	6.4%	33,763	6.2%
Total income of self-employed proprietor (before taxes on income and profits)	$ 48,447	10.3%	$ 51,295	9.4%
Value of inventory at cost and as a percent of sales				
Prescription	$ 35,976	11.6%	$ 36,450	10.4%
Other	41,531	26.1%	46,347	23.7%
Total	$ 77,507	16.5%	$ 82,797	15.2%
Annual rate of turnover of inventory	4.2 times		4.5 times	
Size of area and sales per square foot*	sq. ft. 2,212	$212.47	sq. ft. 2,472	$220.29
Rent per square foot*	$4.51		$5.11	
Number of prescriptions dispensed				
New	12,526	47.0%	13,809	48.6%
Renewed	14,133	53.0%	14,631	51.4%
Total	26,659	100.0%	28,440	100.0%
Prescription charge	$11.63		$12.29	
Number of hours per week				
Pharmacy was open	60 hours		64 hours	
Worked by proprietor	46 hours		47 hours	
Worked by employed pharmacist(s)	29 hours		43 hours	

*Based on averages of pharmacies that reported all data

Total Sales $600,000 to $750,000 (159 Pharmacies)	Total Sales $750,000 to $1,000,000 (132 Pharmacies)	Total Sales $1,000,000 to $1,500,000 (132 Pharmacies)	Total Sales over $1,500,000 (41 Pharmacies)
$425,684— 63.7%	$514,546— 59.8%	$ 623,402— 52.5%	$ 788,018— 42.7%
242,498— 36.3%	345,612— 40.2%	564,229— 47.5%	1,058,755— 57.3%
$668,182—100.0%	$860,158—100.0%	$1,187,631—100.0%	$1,846,773—100.0%
441,960— 66.1%	581,090— 67.6%	812,618— 68.4%	1,280,218— 69.3%
$226,222— 33.9%	$279,068— 32.4%	$ 375,013— 31.6%	$ 566,555— 30.7%
$ 38,647— 5.8%	$ 43,048— 5.0%	$ 45,874— 3.9%	$ 54,232— 2.9%
75,012— 11.2%	94,911— 11.0%	139,794— 11.8%	227,543— 12.3%
15,154— 2.3%	19,745— 2.3%	27,289— 2.3%	38,584— 2.1%
77,484— 11.6%	91,862— 10.7%	129,423— 10.9%	213,393— 11.6%
$206,297— 30.9%	$249,566— 29.0%	$ 342,380— 28.9%	$ 533,752— 28.9%
$ 19,925— 3.0%	$ 29,502— 3.4%	$ 32,633— 2.7%	$ 32,803— 1.8%
38,647— 5.8%	43,048— 5.0%	45,874— 3.9%	54,232— 2.9%
$ 58,572— 8.8%	$ 72,550— 8.4%	$ 78,507— 6.6%	$ 87,035— 4.7%
$ 40,783— 9.6%	$ 49,759— 9.7%	$ 57,847— 9.3%	$ 73,369— 9.3%
54,774— 22.6%	67,837— 19.6%	114,025— 20.2%	172,243— 16.3%
$ 95,557— 14.3%	$117,596— 13.7%	$ 171,872— 14.5%	$ 245,612— 13.3%
4.8 times	5.2 times	4.9 times	5.4 times
sq. ft. 2,963 $225.54	sq. ft. 3,206 $267.60	sq. ft. 4,400 $269.88	sq. ft. 5,244 $342.68
$5.11	$6.16	$6.20	$7.35
16,662— 48.5%	21,359— 49.6%	26,094— 49.0%	32,111— 50.2%
17,692— 51.5%	21,679— 50.4%	27,139— 51.0%	31,815— 49.8%
34,354—100.0%	43,038—100.0%	53,233—100.0%	63,926—100.0%
$12.39	$11.96	$11.71	$12.33
64 hours	68 hours	71 hours	74 hours
47 hours	47 hours	48 hours	48 hours
47 hours	63 hours	73 hours	105 hours

Prescription Activity

LILLY DIGEST data show that prescription department sales have expanded steadily over the past two decades. The professional area's contribution to the business has increased from 40.9% of total sales in 1965 to 60.5% for 1984. This suggests that the economic survival of the independent community pharmacy is closely associated with a healthy prescription department.

Table 4 presents operating statistics according to daily prescription activity. As expected, when the number of prescriptions dispensed daily increases, total sales volume also advances. As the prescription sales share of total sales increases, gross margin tends to decline; however, total expenses appear to fall at an even faster rate, with the result that net profit before taxes tends to rise. An increase in prescription activity requires additional professionals to handle the greater workload and is reflected in the upward trend in employed pharmacist hours worked per week. This increased need for professional personnel also influences employees' wage expense, which goes up as the number of prescriptions dispensed grows.

As the ratio of prescription sales to total sales rises, inventory investment declines as a percent of sales. Prescription oriented stores are typically characterized by small floor area and limited merchandise space. This may serve to explain their lower inventory level, although inventory control procedures also may be more efficient in these operations. In support of this assertion is the steady improvement in the inventory turnover rate as prescription activity

Table 4 *Summary by number of prescriptions dispensed daily in 1984*

Averages per Pharmacy	Under 35 Prescriptions Daily (174 Pharmacies)	35 to 50 Prescriptions Daily (221 Pharmacies)
Sales		
Prescription	$122,924— 51.8%	$189,740— 59.8%
Other	114,597— 48.2%	127,779— 40.2%
Total	$237,521—100.0%	$317,519—100.0%
Cost of goods sold	154,798— 65.2%	207,879— 65.5%
Gross margin	$ 82,723— 34.8%	$109,640— 34.5%
Expenses		
Proprietor's or manager's salary	$ 22,961— 9.7%	$ 25,293— 8.0%
Employees' wages	19,085— 8.0%	29,390— 9.3%
Rent	7,288— 3.1%	8,592— 2.7%
Miscellaneous operating costs	29,902— 12.6%	37,348— 11.7%
Total expenses	$ 79,236— 33.4%	$100,623— 31.7%
Net profit (before taxes)	$ 3,487— 1.4%	$ 9,017— 2.8%
Add proprietor's withdrawals	22,961— 9.7%	25,293— 8.0%
Total income of self-employed proprietor (before taxes on income and profits)	$ 26,448— 11.1%	$ 34,310— 10.8%
Value of inventory at cost and as a percent of sales		
Prescription	$ 18,585— 15.1%	$ 24,463— 12.9%
Other	28,808— 25.1%	33,551— 26.3%
Total	$ 47,393— 19.9%	$ 58,014— 18.3%
Annual rate of turnover of inventory	3.3 times	3.7 times
	sq. ft.	sq. ft.
Size of area and sales per square foot*	1,745 $136.12	2,032 $168.47
Rent per square foot*	$4.18	$4.23
Number of prescriptions dispensed		
New	4,735— 48.9%	7,471— 48.9%
Renewed	4,949— 51.1%	7,797— 51.1%
Total	9,684—100.0%	15,268—100.0%
Prescription charge	$12.69	$12.43
Number of hours per week		
Pharmacy was open	54 hours	58 hours
Worked by proprietor	48 hours	49 hours
Worked by employed pharmacist(s)	13 hours	20 hours

*Based on averages of pharmacies that reported all data

increases (from 3.3 to 5.7 times). Dollarwise, prescription inventory increases as the volume of prescription business grows. However, it should be noted that the sales productivity of this inventory also rises as daily prescription activity increases from $6.61 in the smallest sales category to $11.55 in the largest. The sales productivity of nonprescription inventory also moves up as sales improve but at a much slower rate and within a narrower range ($3.98 to $5.38). It is not surprising to observe that as a pharmacy's prescription business grows, its size in square feet and rent expense in dollars increase. As a result, total sales as well as rent per square foot tend to rise steadily.

The renewed share of total prescriptions dispensed moves in a very narrow range as prescription activity advances. However, in the larger volume operations, the renewed prescription share tended to be higher, which suggests that customer loyalty may be somewhat greater. This may be explained, in part, by the slightly lower average prescription charge in these pharmacies.

The ratio of prescriptions per employed pharmacist hour is generally low in pharmacies that dispense few prescriptions. This apparently unfavorable ratio is probably due to the legal requirement in most states that a pharmacist must be in attendance whenever the store is open, even though, from an economic viewpoint, prescription activity may not warrant it. As total sales volume and daily prescription activity increase, the proprietor may find that more of his time is spent on nonprescription-oriented tasks, with the result that additional professional area staff are needed. These factors considered, it appears that pharmacists' prescription output increases as volume grows. Assuming that 75% of the proprietor's time was devoted to the prescription department, it can be calculated that on the average 7.5 prescriptions per pharmacist hour were dispensed. The statistic was at slightly more than 7.4 prescriptions per pharmacist hour reported for 1963 in stores with the highest daily prescription activity. What was even more impressive was that pharmacists and their automated equipment were probably used to attain the high degree of productivity.

50 to 60 Prescriptions Daily (159 Pharmacies)	60 to 75 Prescriptions Daily (215 Pharmacies)	75 to 100 Prescriptions Daily (246 Pharmacies)	100 to 150 Prescriptions Daily (206 Pharmacies)	Over 150 Prescriptions Daily (120 Pharmacies)
$245,574— 57.3%	$295,020— 58.3%	$372,368— 59.2%	$523,302— 60.8%	$ 816,907— 67.4%
182,916— 42.7%	211,193— 41.7%	257,004— 40.8%	337,690— 39.2%	395,388— 32.6%
$428,490—100.0%	$506,213—100.0%	$629,372—100.0%	$860,992—100.0%	$1,212,295—100.0%
286,004— 66.7%	335,214— 66.2%	422,460— 67.1%	584,178— 67.8%	821,580— 67.8%
$142,486— 33.3%	$170,999— 33.8%	$206,912— 32.9%	$276,814— 32.2%	$ 390,715— 32.2%
$ 30,303— 7.1%	$ 31,629— 6.2%	$ 36,231— 5.8%	$ 41,731— 4.8%	$ 49,529— 4.1%
41,036— 9.6%	51,371— 10.1%	66,029— 10.5%	93,038— 10.8%	148,617— 12.3%
10,766— 2.5%	13,783— 2.7%	14,284— 2.3%	18,581— 2.2%	23,526— 1.9%
47,597— 11.1%	58,712— 11.7%	71,119— 11.3%	93,705— 10.9%	131,796— 10.9%
$129,702— 30.3%	$155,495— 30.7%	$187,663— 29.9%	$247,055— 28.7%	$ 353,468— 29.2%
$ 12,784— 3.0%	$ 15,504— 3.1%	$ 19,249— 3.0%	$ 29,759— 3.5%	$ 37,247— 3.0%
30,303— 7.1%	31,629— 6.2%	36,231— 5.8%	41,731— 4.8%	49,529— 4.1%
$ 43,087— 10.1%	$ 47,133— 9.3%	$ 55,480— 8.8%	$ 71,490— 8.3%	$ 86,776— 7.1%
$ 29,506— 12.0%	$ 33,285— 11.3%	$ 38,512— 10.3%	$ 49,947— 9.5%	$ 70,715— 8.8%
40,884— 22.4%	46,952— 22.2%	56,126— 21.8%	68,987— 20.4%	73,515— 18.6%
$ 70,390— 16.4%	$ 80,237— 15.9%	$ 94,638— 15.0%	$118,934— 13.8%	$ 144,230— 11.9%
4.2 times	4.3 times	4.6 times	4.9 times	5.7 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
2,139 $216.64	2,366 $238.34	2,787 $249.11	3,068 $280.64	3,335 $363.51
$5.03	$5.82	$5.12	$6.05	$7.05
9,495— 47.8%	11,811— 48.9%	15,211— 49.0%	20,986— 48.5%	34,593— 48.2%
10,382— 52.2%	12,341— 51.1%	15,815— 51.0%	22,319— 51.5%	37,264— 51.8%
19,877—100.0%	24,152—100.0%	31,026—100.0%	43,305—100.0%	71,857—100.0%
$12.35	$12.22	$12.00	$12.08	$11.37
60 hours	60 hours	65 hours	66 hours	68 hours
49 hours	45 hours	48 hours	47 hours	47 hours
28 hours	33 hours	43 hours	54 hours	85 hours

Balance Sheet and Financial Ratio Trends

A sound management policy dictates that the pharmacist owner-manager review both the income and expense statement for an evaluation of day-to-day operations and the balance sheet for an assessment of capital position. Pharmacy owners should review the balance sheet as an investor would, relating income to the permanent funds invested and evaluating the overall liquidity and solvency of the business. The owner-investor can determine how effectively assets are being utilized by relating the asset and liability position to sales and profit figures. Financial ratios developed from balance sheet data can be used to measure the liquidity of the business, or its ability to meet current obligations; the profitability of the operation, or management's effective use of equity; and the overall solvency of the firm, or its ability to finance capitalization.

Liquidity or Short-Term Capitalization measures the pharmacy's ability to meet its current financial obligations. It also reflects the relationship between the firm's short-term financial obligations (current liabilities) and the source of monies to meet these requirements (current assets).

$$\text{CURRENT RATIO} = \frac{\text{Current Assets (Cash, notes, accounts receivable, and inventory)}}{\text{Current Liabilities (Accounts and notes payable, due within one year)}}$$

Many observers suggest that a current ratio of 2 to 1 is reasonable. This value would allow current assets to shrink 50% (as might happen with inventory) and still cover current obligations. The current ratio is also an indicator of the margin of safety that management maintains in order to allow for fluctuations in the flow of funds within the business during the year. Creditors are favorable to a high current ratio, since it suggests a wide margin of safety for any claims against the business. However, an extremely high ratio may indicate management is not using funds in the most productive way. Asset investment may be higher than necessary and, therefore, not generating a sufficient return. The current ratio for the average LILLY DIGEST pharmacy for 1984 was 3.1 to 1.

Profitability measures how effective management has been in increasing the owner's equity.

$$\text{RETURN ON INVESTMENT} = \frac{\text{Net Profit (Gross margin} - \text{total expenses)}}{\text{Net Worth (Total assets} - \text{total liabilities)}}$$

The return-on-investment or return-on-equity calculation is considered the broadest measure of overall performance, since it indicates how well funds, as supplied by the owners, are being utilized.

Solvency or Long-Term Capitalization is calculated by lenders in estimating the borrowing potential of a business and refers to the ability of a firm to meet the repayment schedule on long-term obligations.

$$\text{DEBT/EQUITY RATIO} = \frac{\text{Total Liabilities}}{\text{Net Worth}}$$

A pharmacy in which the total debt exceeds the owner's equity is quite vulnerable to major changes in the firm's operation. Such changes may be the result of a sudden or prolonged decline in sales or an increase in expenses. When the debt/equity ratio is low in comparison with that of similar operations, the pharmacy may not be leveraged to the best advantage.

$$\text{NET SALES TO NET WORTH} = \frac{\text{Net Sales}}{\text{Net Worth}}$$

This ratio examines the productivity of equity in terms of supporting sales. A higher ratio may imply inadequate owner's capitalization, or a highly leveraged firm. When the ratio is low, the operation is not realizing full use of its funds, and the owner's investment has become stagnant.

Table 5 *Balance sheet and financial ratios by pharmacy age as of December 31, 1984—sales under $400,000*

Averages per Pharmacy	Pharmacy Age under 2 Years (35 Pharmacies)	Percent of Sales	Pharmacy Age over 2 Years (302 Pharmacies)	Percent of Sales
Assets				
Current assets				
Cash	$ 9,858	4.1%	$ 10,309	3.7%
Accounts receivable	5,593	2.3%	10,246	3.6%
Inventory	42,771	17.8%	47,276	16.9%
Total current assets	$ 58,222	24.2%	$ 67,831	24.2%
Fixed assets				
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	14,272	5.9%	9,181	3.3%
Other assets				
Prepaid expenses, deposits, etc.	2,134	0.9%	3,140	1.1%
Total assets*	$ 74,628	31.0%	$ 80,152	28.6%
Liabilities				
Current and accrued liabilities				
Accounts payable	$ 9,340	3.9%	$ 10,674	3.8%
Notes payable (within one year)	5,379	2.2%	3,462	1.3%
Accrued expenses and other liabilities	1,965	0.8%	3,202	1.1%
Total current and accrued liabilities	$ 16,684	6.9%	$ 17,338	6.2%
Long-term liabilities				
Notes payable (later than one year)	30,968	12.9%	10,016	3.6%
Total liabilities	$ 47,652	19.8%	$ 27,354	9.8%
Net Worth	26,976	11.2%	52,798	18.8%
Total liabilities and net worth*	$ 74,628	31.0%	$ 80,152	28.6%
Net working capital	$ 41,538	17.3%	$ 50,493	18.0%
Sales	$240,300		$280,337	
Purchases	$161,311	67.1%	$185,691	66.3%
Net profit (before taxes)	$ 8,910	3.7%	$ 8,162	2.9%
Financial Ratios				
Current assets to current liabilities	3.5 times		3.9 times	
Net sales to net worth	8.9 times		5.3 times	
Net profit (before taxes) on net worth	33.0%		15.5%	
Total debt to net worth	176.7%		51.2%	

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

The balance sheet and financial ratios in Tables 5 and 6 are arranged according to the sales volume categories of under and over $400,000. Pharmacies within these categories are also separated according to age. The primary column for comparison in each category is the one which expresses the components as a percent of sales. The balance sheet statistics indicate that as pharmacies become older, their inventory levels decrease as a percent of sales. This may reflect expertise in inventory control that management gained with experience. It is interesting to note that accounts receivable increase both in dollars and percentagewise as stores age. This may be explained, in part, by the increased extension of credit to pharmacy patrons as management becomes more familiar with the customer base.

Balance sheet figures show that, regardless of sales volume, as a store matures to over two years of age, long-term liabilities decline both dollarwise and as a percent of sales. In addition, adequate funds are generated with which to retire debt and build up net worth.

Table 6 *Balance sheet and financial ratios by pharmacy age as of December 31, 1984—sales over $400,000*

Averages per Pharmacy	Pharmacy Age under 2 Years (21 Pharmacies)	Percent of Sales	Pharmacy Age over 2 Years (558 Pharmacies)	Percent of Sales
Assets				
Current assets				
Cash	$ 12,339	1.9%	$ 26,691	3.3%
Accounts receivable	18,067	2.7%	31,776	3.9%
Inventory	103,446	15.7%	110,949	13.8%
Total current assets	$133,852	20.3%	$169,416	21.0%
Fixed assets				
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	39,023	5.9%	28,310	3.5%
Other assets				
Prepaid expenses, deposits, etc.	2,885	0.4%	11,189	1.4%
Total assets*	$175,760	26.6%	$208,915	25.9%
Liabilities				
Current and accrued liabilities				
Accounts payable	$ 25,332	3.8%	$ 37,430	4.6%
Notes payable (within one year)	14,270	2.2%	10,729	1.3%
Accrued expenses and other liabilities	10,703	1.6%	14,985	1.9%
Total current and accrued liabilities	$ 50,305	7.6%	$ 63,144	7.8%
Long-term liabilities				
Notes payable (later than one year)	53,035	8.0%	26,062	3.2%
Total liabilities	$103,340	15.6%	$ 89,206	11.0%
Net Worth	72,420	11.0%	119,709	14.9%
Total liabilities and net worth*	$175,760	26.6%	$208,915	25.9%
Net working capital	$ 83,547	12.7%	$106,272	13.2%
Sales	$660,072		$805,475	
Purchases	$455,167	69.0%	$553,845	68.8%
Net profit (before taxes)	$ 35,030	5.3%	$ 24,575	3.1%
Financial Ratios				
Current assets to current liabilities	2.7 times		2.7 times	
Net sales to net worth	9.1 times		6.7 times	
Net profit (before taxes) on net worth	48.4%		20.5%	
Total debt to net worth	142.7%		74.5%	

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

As pharmacies become successful and remain in operation more than two years, the net working capital rises both in dollars and in percentage of sales. It also shows substantial dollar increases with rising sales volume but declines as a percent of sales.

The financial ratio data, especially the current ratio, indicate that the smaller volume operations appear to be in a somewhat better position to meet current financial obligations. However, it should be noted that the net sales to net worth ratio indicates that younger stores are relatively highly leveraged when compared with their more established counterparts.

Since net profit before taxes declined in both sales groups as pharmacies became older, it is not surprising to observe that return on investment also fell in the more mature operations, regardless of sales volume.

As expected, the total debt to net worth ratio suggests that as pharmacies age and accumulate net worth, they improve their ability to borrow funds for future capital expansion or remodeling and are less susceptible to major fluctuations in the marketplace.

Net Profit

Retail pharmacists have said that the degree of pharmaceutical service provided to a community is directly related to the independent pharmacy's ability to generate adequate profit. Profits are essential for working capital requirements, capital improvements, returns to investors, and retained earnings. When pharmacies continually operate at a loss, funds must be borrowed to sustain operations, and the additional interest expense incurred further reduces profitability. Lenders usually refuse loans to businesses that continually show losses, and without capital, these firms will ultimately fail.

The figures in Table 7 show that 14% of all Lilly Digest respondents operated at a loss during 1984, down from 15% recorded the previous year. Furthermore, 22% of pharmacies submitting figures reported a net profit of less than 2% (up from 21 percent for 1983). It should also be noted that 11% of participants posted a net profit of 10% or more, up 1% from the 1983 figure. In general, the statistics in Table 7 suggest that there was a slight improvement in the net profit position among stores reporting for 1984, when compared with data for the previous year.

Turnover Comparison Table 8 presents selected operating statistics from two groups of stores, one showing a high turnover rate and the other a lower rate. Comparison indicates that pharmacy owner-managers who control their inventory investment and maintain a high turnover rate improve their total income. Community pharmacies with an inventory turnover rate averaging 7.7 times per year reported a higher cost of goods sold and, therefore, a lower gross margin than the slow turnover group. However, because of the offsetting effect of lower total expenses, these stores had a higher total income. The more favorable expense figure may result, in part, from economies in both procurement and carrying costs.

Break-Even Point The calculated break-even point for the 1,341 pharmacies contributing figures to the Lilly Digest was reached in 1984's seventh month, when 63.3% of total sales had been attained. At the break-even point, all fixed costs of operation for the year are covered, as are the variable costs up to that time. All pharmacy costs are considered fixed except employees' wages, advertising, mail, tele., and miscellaneous expenses. Beyond the break-even point, sales are reduced only by the variable costs incurred thereafter. The remainder is net profit.

Table 8 *Turnover comparison (percent of sales)*

	Fast Turnover (201 Pharmacies)	Slow Turnover (284 Pharmacies)
Total sales	100.0%	100.0%
Cost of goods sold	67.8%	65.0%
Gross margin	32.2%	35.0%
Employees' wages	9.5%	11.4%
Rent and miscellaneous expenses	12.7%	15.5%
Total expenses (less proprietor's salary)	22.2%	26.9%
Total income (proprietor's salary plus net profit)	9.9%	8.1%
Total inventory	7.7%	21.4%
Inventory turnover	7.7 times	3.0 times

Table 7 *Net profit according to sales size*

	Under $200,000	$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	$350,000-$400,000	$400,000-$450,000	$450,000-$500,000	$500,000-$600,000	$600,000-$750,000	$750,000-$1,000,000	Over $1,000,000	This Year	Last Year
Number of Pharmacies	108	100	116	98	111	109	84	151	159	132	173	1,341	1,547
Net Profit as a Percent of Sales													
Operating at a loss	30%	16%	20%	25%	15%	9%	5%	13%	10%	9%	9%	14%	15%
Less than 2%	30	15	21	17	18	20	25	22	25	23	28	22	21
2% to 5%	22	34	21	19	27	29	33	33	30	36	37	30	31
5% to 7.5%	6	7	14	19	18	19	15	17	17	15	13	15	16
7.5% to 10%	6	12	10	9	11	8	9	4	10	9	6	8	7
10% and over	6	16	14	11	11	15	13	11	8	8	7	11	10

Rent

During 1984, rental expense for the average independent community pharmacy reporting to the Lilly Digest increased 7.5% in dollars but remained unchanged as a percent of total sales. The long term nature of rental agreements probably accounts for the overall consistency of the rate over time. Rent, like other expenses, should be kept in line with sales volume if an adequate net profit is to be maintained. A fair and equitable rental expenditure should be based on realistic sales and profit projections. Leases for community pharmacies usually specify payments in terms of percent of sales, dollar figures per square foot occupied, total monthly or yearly dollar rates, or some combination of these.

Table 9 illustrates rental expense as a percent of sales according to sales volume. The distribution of this expense has not changed significantly from that reported in 1983. The majority of stores—58.6% (up from 56.1% for 1983)—paid 2.5% of sales or less for rent, and 80.2% spent less than 3.5%.

Table 10 shows the evaluation of rent from several perspectives. Pharmacy managers should review the entire table in order to gain a broad awareness of the influence of these variables on rental expense. Section A correlates rent with sales volume. Rent tends to decline as a percent of sales as sales increase. Larger volume operations pay more for rent, but each square foot of floor area is more productive.

Section B shows the effect of store location on rental expense. It is observed that as pharmacy location changes from downtown to neighborhood to shopping center to medical office building, the dollar expenditure, cost per square foot, and rent percentage tend to move upward.

Section C indicates that as daily prescription activity increases, there is a corresponding increase in sales volume, and rent generally declines percentagewise. Section A closely parallels these data.

Section D illustrates the influence of store age on rent. Sales volume grows as the pharmacy matures, with the result that rental expense declines as a percent of sales. As stores age, they become larger in size, generate more sales per square foot, and pay less rent per square foot. As expected, younger operations tend to have the lowest sales volume and pay the highest rent percentagewise.

Section E summarizes rent expense according to geographic region. The New England States reported the lowest rental percentage and the highest average sales. Pharmacies in the Pacific States again paid the most rent per square foot of space, whereas those stores in the East South Central States spent the least. Stores in this region also posted the lowest sales volume and were the smallest in size.

Table 9 *Rental percentages by sales size*

	Under $200,000	$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	$350,000-$400,000	$400,000-$450,000	$450,000-$500,000	$500,000-$600,000	$600,000-$750,000	$750,000-$1,000,000	Over $1,000,000	Total	Percent of Pharmacies
Number of Pharmacies	108	100	116	98	111	109	84	151	159	132	173	1,341	100.0%
Rent as a Percent of Sales													
Less than 1.5%	11	19	31	23	30	22	19	41	43	37	53	329	24.5%
1.5% to 2.5%	23	32	29	27	41	47	42	57	58	46	55	457	34.1%
2.5% to 3.5%	28	23	26	27	21	20	12	29	32	28	43	289	21.6%
3.5% to 4.5%	17	13	14	14	8	11	6	12	15	13	8	131	9.8%
4.5% to 5.5%	13	8	10	4	6	4	4	8	6	4	7	74	
5.5% to 6.5%	5	1	3	2	2	4	—	1	4	2	3	27	
6.5% to 7.5%	2	2	—	—	3	—	—	2	1	2	2	14	
7.5% to 8.5%	6	1	1	—	—	1	1	1	—	—	2	13	
8.5% to 9.5%	1	—	1	—	—	—	—	—	—	—	—	2	10.0%
9.5% to 10.5%	—	—	—	—	—	—	—	—	—	—	—	0	
10.5% to 11.5%	1	1	—	—	—	—	—	—	—	—	—	2	
11.5% to 12.5%	1	—	1	—	—	—	—	—	—	—	—	2	
12.5% and over	—	—	—	1	—	—	—	—	—	—	—	1	

Table 10 *Rent correlated with various factors*

A Annual Sales	Average Sales	Size of Pharmacy (Sq. Ft.)*	Sales per Square Foot	Average Rent	Rent per Square Foot	Rent Percentage
Under $200,000	$ 162,052	1,228	$131.96	$ 5,847	$4.76	3.6%
$200,000 to $250,000	227,164	1,440	157.91	6,247	4.33	2.7%
$250,000 to $300,000	276,967	1,553	178.28	7,335	4.72	2.6%
$300,000 to $350,000	324,484	1,743	185.94	8,391	4.81	2.6%
$350,000 to $400,000	373,428	1,932	193.46	8,882	4.59	2.4%
$400,000 to $450,000	427,240	2,129	200.88	10,502	4.93	2.5%
$450,000 to $500,000	469,458	2,212	212.47	9,987	4.51	2.1%
$500,000 to $600,000	544,799	2,472	220.29	12,634	5.11	2.3%
$600,000 to $750,000	668,182	2,963	225.54	15,154	5.11	2.3%
$750,000 to $1,000,000	860,158	3,206	267.60	19,745	6.16	2.3%
$1,000,000 to $1,500,000	1,187,631	4,400	269.88	27,289	6.20	2.3%
Over $1,500,000	1,846,773	5,244	342.68	38,584	7.35	2.1%
B Location						
Downtown	$ 546,992	2,584	$225.19	$10,041	$3.89	1.8%
Neighborhood	560,445	2,463	248.53	12,486	5.07	2.2%
Shopping Center	768,242	3,613	229.85	22,491	6.23	2.9%
Medical Office Building	449,104	1,046	451.84	14,317	13.69	3.2%
C Number of Prescriptions Dispensed Daily						
Under 35	$ 237,521	1,745	$136.12	$ 7,288	$4.18	3.1%
35 to 50	317,519	2,032	168.47	8,592	4.23	2.7%
50 to 60	428,490	2,139	216.64	10,766	5.03	2.5%
60 to 75	506,213	2,366	238.34	13,783	5.82	2.7%
75 to 100	629,372	2,787	249.11	14,284	5.12	2.3%
100 to 150	860,992	3,068	280.64	18,581	6.05	2.2%
Over 150	1,212,295	3,335	363.51	23,526	7.05	1.9%
D Number of Years Pharmacy Has Been in Operation						
Less than 2 years	$ 397,241	2,081	$190.92	$12,826	$6.16	3.2%
2 to 5 years	467,978	2,129	219.79	12,460	5.85	2.7%
5 to 10 years	495,778	2,225	222.84	12,215	5.49	2.5%
Over 10 years	649,637	2,730	237.95	14,185	5.20	2.2%
E Geographic Region						
New England States	$ 725,751	2,406	$277.66	$14,480	$6.02	2.0%
Middle Atlantic States	635,164	2,226	292.28	13,092	5.88	2.1%
East North Central States	663,003	2,770	235.98	14,780	5.34	2.2%
West North Central States	483,691	2,277	210.48	10,917	4.79	2.3%
South Atlantic States	510,793	2,314	223.45	10,738	4.64	2.1%
East South Central States	467,051	2,200	211.70	9,758	4.44	2.1%
West South Central States	503,718	2,332	212.73	12,141	5.21	2.4%
Mountain States	526,423	3,040	177.54	15,905	5.23	3.0%
Pacific States	598,125	2,602	229.56	19,182	7.37	3.2%
LILLY DIGEST Average	571,313	2,471	229.36	13,428	5.43	2.4%

*Based on averages of pharmacies that reported all data

Geographic Summary

Table 11 presents the variations in operating statistics of independent community pharmacies located in different geographic areas of the United States. Consistent with the trend of recent years, the Pacific States reported the highest average prescription charge, which surpassed the $13.00 level for the first time. They also had the highest gross margin, total wage package, rent, and total expense percentage figures of any region, while being open the fewest business hours. The Middle Atlantic States recorded the lowest gross margin and total expenses as a percent of sales.

The East South Central Region showed the highest ratio of prescription revenue to total sales and the largest net profit before taxes as a percent of sales. This region also submitted the lowest average prescription charge. The Mountain States reported the lowest ratio of prescription income to total sales and

Table 11 *Summary by geographic regions in 1984*

Geographic Region	Total Sales ($000)	Ratio of Prescription Sales to Total Sales	Gross Margin	Total Wage Package	Rent
New England States (CT, ME, MA, NH, RI, VT)	$725.7	51.4%	32.2%	16.3%	2.0%
Middle Atlantic States (NJ, NY, PA)	$635.2	54.1%	30.7%	15.5%	2.1%
East North Central States (IL, IN, MI, OH, WI)	$663.0	59.2%	31.6%	16.0%	2.2%
West North Central States (IA, KS, MN, MO, NE, ND, SD)	$483.7	60.6%	33.4%	15.7%	2.3%
South Atlantic States (DE, DC, FL, GA, MD, NC, SC, VA, WV)	$510.8	66.0%	33.6%	16.9%	2.1%
East South Central States (AL, KY, MS, TN)	$467.0	73.2%	34.7%	17.2%	2.1%
West South Central States (AR, LA, OK, TX)	$503.7	69.3%	35.0%	16.8%	2.4%
Mountain States (AZ, CO, ID, MT, NV, NM, UT, WY)	$526.4	50.5%	32.3%	15.1%	3.0%
Pacific States (AK, CA, HI, OR, WA)	$598.1	59.6%	35.6%	17.8%	3.2%
Lilly Digest Average	$571.3	60.5%	33.0%	16.3%	2.4%

the lowest total wage package figure, which is not surprising since they also dispensed the fewest prescriptions. Stores in the East North Central Region filled the largest number of prescriptions per year but had the smallest net profit percentage.

Pharmacies in the New England States posted the smallest inventory investment percentagewise but were also the most productive in terms of generating sales volume. In addition, this region recorded the longest business hours and the greatest number of employed pharmacist hours worked per week.

The geographic summary data were designed to allow comparison between regions. However, it is suggested that pharmacy management first compare the individual unit's operating data with statistics in the "Self Analysis" section of the [illegible]. The regional information may then be used to explain variations from the usual averages.

Total Expenses	Net Profit	Inventory at Cost	Number of Prescriptions	Average Prescription Charge	Pharmacy Hours Open per Week	Employed Pharmacist(s) Hours Worked per Week
29.7%	2.5%	13.3%	32,292	$11.55	69	51
27.7%	3.0%	14.2%	30,326	$11.33	68	45
29.3%	2.3%	14.7%	32,639	$12.02	64	46
30.0%	3.4%	16.7%	24,319	$12.05	60	31
29.7%	3.9%	14.4%	28,847	$11.69	61	34
30.1%	4.6%	13.6%	31,249	$10.94	59	31
30.9%	4.1%	15.3%	28,016	$12.47	58	31
29.8%	2.5%	18.2%	21,320	$12.47	61	37
33.0%	2.6%	14.9%	26,564	$13.43	57	38
29.9%	3.1%	15.0%	28,776	$12.00	62	38

Long-Term-Care Pharmacy Operations

Table 12 shows the averages of selected operating data submitted by Lilly Digest contributors who indicated they provided vendor and/or consultant pharmacist service to long-term-care facilities. The statistics are separated according to the volume of nursing home business reported by community pharmacies. The operational characteristics that describe these pharmacies are quite similar regardless of sales volume. It is noteworthy that stores reporting the largest volume of nursing home business also had the highest gross margin. This resulted in a greater net profit, since total expenses, percentagewise, remained the same as sales increased. The number of business hours and the hours worked by management showed little variation and were not affected by sales volume. However, the size of the pharmacy and the employed pharmacist hours worked were related to total sales, with the larger volume stores requiring more space and a larger staff. These firms also posted a lower average prescription charge, perhaps as a result of the economies of scale often associated with larger sized operations.

Consultant pharmacist services averaging about 7.3 hours per week to serve 2.4 homes were provided by pharmacies having the highest level of prescription activity, whereas those dispensing fewer prescriptions to nursing home patients spent 4.7 hours on 1.8 locations. Expressed in terms of hours per 100 patients, consultant time (per 100 patients per week) amounted to 5.2 hours per week for lower-volume pharmacies but was a more efficient 3.7 hours among stores with greater income. It was observed that pharmacies enjoying the greater volume of nursing home business also reported the highest average consultant charge per hour. However, the consultant charge per prescription dispensed was somewhat lower in these operations, perhaps because of economies of scale.

Table 12 *Long-term-care pharmacy operations*

Averages per Pharmacy	Long-Term-Care Billing Under $25,000/Year (88 Pharmacies)	Long-Term-Care Billing Over $25,000/Year (98 Pharmacies)
Prescription sales	$346,793— 68.3%	$437,234— 66.6%
Other sales	160,983— 31.7%	219,199— 33.4%
Total sales	$507,776—100.0%	$656,433—100.0%
Cost of goods sold	337,491— 66.5%	431,755— 65.8%
Gross margin	$170,285— 33.5%	$224,678— 34.2%
Total expenses	153,608— 30.2%	198,101— 30.2%
Net profit (before taxes)	$ 16,677— 3.3%	$ 26,577— 4.0%
Prescriptions dispensed per year	28,093	38,130
Pharmacy hours open per week	61	62
Total floor area	2,064 sq. ft.	2,500 sq. ft.
Manager hours per week	49	49
Employed pharmacist hours per week	40	52
Location	Downtown	Downtown and Neighborhood
Average prescription charge	$12.34	$11.47
Facilities served	1.8	2.4
Patients served	89.8	196.4
Consultant hours per week	4.7	7.3
Consultant charge per hour	$8.66	$10.10
Long-term-care prescriptions dispensed per year	3,542	8,442
Consultant charge per prescription dispensed	59.8 cents	45.4 cents

Pharmacy Location

The site of the operation has a noticeable effect on the financial picture of an independent community pharmacy. Table 13 presents the operating data of LILLY DIGEST stores according to location. The distribution is the same as that for 1983. However, it is interesting to note that the percentage of LILLY DIGEST pharmacies located in a neighborhood setting has increased slightly over the past few years.

As reported in previous editions of the DIGEST, shopping center units continue to show the highest average sales, have the largest floor areas, and remain open the longest hours. They also reported the greatest number of prescriptions dispensed and the most hours worked by employed pharmacists as well as the highest percentage for employees' wages. For the first time, shopping center locations received over 50% of total revenue from the prescription department. They also improved their net profit picture substantially when it was compared with 1983 percentages (up 0.6%), the result of a significant increase in gross margin.

Downtown pharmacies dispensed the fewest prescriptions and paid the least for rent. It is noteworthy that both downtown and neighborhood pharmacies posted the same average prescription charge.

Medical office building locations again reported the largest gross margin and net profit as a percent of sales. These pharmacies also had the lowest inventory investment, smallest floor area, and fewest business hours. Medical office building units recorded the best inventory turnover rate of any location and paid the highest rent per square foot at $13.69.

Table 13 *Summary of pharmacy operations according to location*

Averages per Pharmacy	Downtown (467 Pharmacies)	Neighborhood (439 Pharmacies)	Shopping Center (200 Pharmacies)	Medical Office Building (182 Pharmacies)
Sales				
Prescription	$328,267— 60.0%	$336,405— 60.0%	$405,980— 52.8%	$356,575— 79.4%
Other	218,725— 40.0%	224,040— 40.0%	362,262— 47.2%	92,529— 20.6%
Total	$546,992—100.0%	$560,445—100.0%	$768,242—100.0%	$449,104—100.0%
Cost of goods sold	366,685— 67.0%	379,308— 67.7%	519,114— 67.6%	285,697— 63.6%
Gross margin	$180,307— 33.0%	$181,137— 32.3%	$249,128— 32.4%	$163,407— 36.4%
Expenses				
Proprietor's or manager's salary	$ 31,144— 5.7%	$ 33,422— 6.0%	$ 37,530— 4.9%	$ 34,242— 7.6%
Employees' wages	57,812— 10.6%	57,942— 10.3%	84,853— 11.0%	46,708— 10.4%
Rent	10,041— 1.8%	12,486— 2.2%	22,491— 2.9%	14,317— 3.2%
Miscellaneous operating costs	64,241— 11.8%	61,738— 11.1%	84,120— 11.0%	49,802— 11.1%
Total expenses	$163,238— 29.9%	$165,588— 29.6%	$228,994— 29.8%	$145,069— 32.3%
Net profit (before taxes)	$ 17,069— 3.1%	$ 15,549— 2.7%	$ 20,134— 2.6%	$ 18,338— 4.1%
Add proprietor's withdrawals	31,144— 5.7%	33,422— 6.0%	37,530— 4.9%	34,242— 7.6%
Total income of self-employed proprietor (before taxes on income and profits)	$ 48,213— 8.8%	$ 48,971— 8.7%	$ 57,664— 7.5%	$ 52,580— 11.7%
Value of inventory at cost and as a percent of sales				
Prescription	$ 34,696— 10.6%	$ 36,214— 10.8%	$ 40,941— 10.1%	$ 36,573— 10.3%
Other	51,374— 23.5%	46,743— 20.9%	79,640— 22.0%	15,130— 16.4%
Total	$ 86,070— 15.7%	$ 82,957— 14.8%	$120,581— 15.7%	$ 51,703— 11.5%
Annual rate of turnover of inventory	4.4 times	4.7 times	4.5 times	5.7 times
	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Size of area and sales per square foot*	2,584 $225.19	2,463 $248.53	3,613 $229.85	1,046 $451.84
Rent per square foot*	$3.89	$5.07	$6.23	$13.69
Number of prescriptions dispensed				
New	12,662— 46.0%	13,689— 48.5%	16,481— 49.5%	15,370— 52.9%
Renewed	14,852— 54.0%	14,512— 51.5%	16,830— 50.5%	13,710— 47.1%
Total	27,514—100.0%	28,201—100.0%	33,311—100.0%	29,080—100.0%
Prescription charge	$11.93	$11.93	$12.19	$12.26
Number of hours per week				
Pharmacy was open	61 hours	63 hours	68 hours	51 hours
Worked by proprietor	49 hours	48 hours	47 hours	43 hours
Worked by employed pharmacist(s)	37 hours	38 hours	52 hours	28 hours

*Based on averages of pharmacies that reported all data

Operating Trends

Ten-Year Trends in Pharmacy Operations Chart 1 illustrates that the ten-year upward trend of total sales for LILLY DIGEST pharmacies continued through 1984. Sales revenue during 1984 rose 8% over the previous year's figure. This growth was lower than the average annual growth rate of 9.4% observed over the past decade.

In Table 14, pharmacy operating data are shown as percentages of sales for each of the past ten years. Since 1982, the cost of goods sold has continued an upward trend which was observed in the early part of the period. Over the decade, the downward trend of total expenses could not offset the lower gross margin, as shown by the relatively steady decline in net profit. However, during 1984, lower total expenses were sufficient to reverse this generally negative trend, and net profit before taxes rose to 3.1% of sales. It should be noted that, although net profit has tended to decline percentagewise over the decade, it has risen consistently in dollars. Rental expense has taken the same share of sales dollars for the third consecutive year. The total wage package (proprietor's salary plus employees' wages) continued to move downward and was the major contributor to the lower total expenses figure for 1984. For the first time, the proprietor's salary fell below 6% of sales. Inventory turnover continued at its highest rate of the decade—4.6 times per year.

Chart 1 *A decade of sales growth*

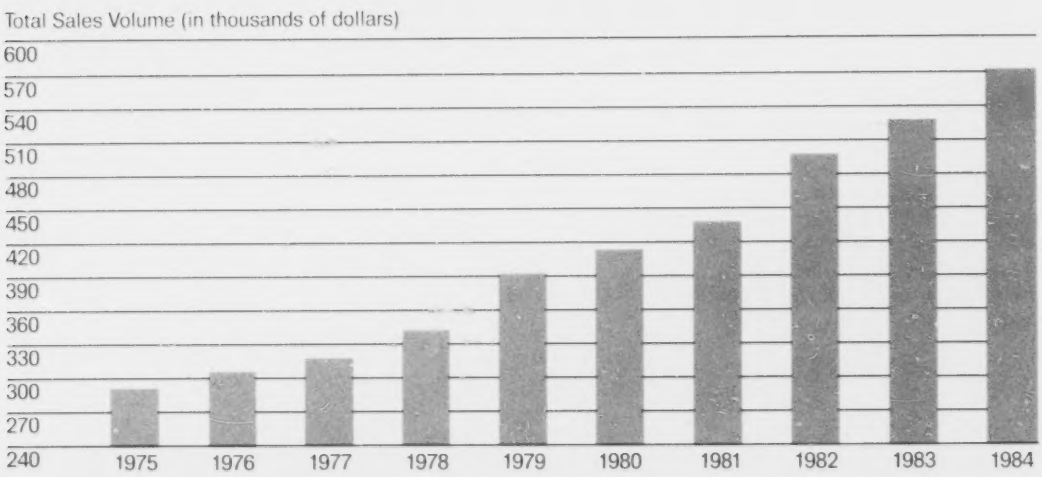


Table 14 *Averages of pharmacy operations—1975-1984 (based on all pharmacies reporting)*

Expressed in Dollars

Year	Sales	Cost of Goods Sold	Gross Margin	Proprietor's Salary	Employees' Wages	Rent	Other Expenses	Total Expenses	Net Profit	Inventory at Cost
1975	$293,785	$189,624	$104,161	$22,469	$34,471	$ 7,248	$28,972	$ 93,160	$11,001	$48,781
1976	309,725	200,871	108,854	22,597	36,417	7,758	31,072	97,844	11,010	51,008
1977	322,755	209,954	112,801	22,622	38,063	8,080	33,013	101,778	11,023	53,382
1978	345,302	225,651	119,651	23,896	39,914	8,436	35,938	108,184	11,467	56,942
1979	391,681	257,334	134,347	25,346	46,759	9,783	40,844	122,732	11,615	64,066
1980	416,161	273,390	142,771	26,001	49,128	10,127	43,731	128,987	13,784	67,020
1981	439,133	288,421	150,712	27,983	50,689	10,886	47,181	136,739	13,973	68,768
1982	498,021	330,577	167,444	29,965	56,454	12,018	54,439	152,876	14,568	76,216
1983	528,864	353,673	175,191	31,775	57,323	12,489	58,104	159,691	15,500	78,946
1984	571,313	382,757	188,556	33,301	60,126	13,428	64,326	171,181	17,375	85,458

Table 15 *Ten-year balance sheet trends*

	1984	1982	1980	1978	1976	1974
	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales
Assets						
Current assets						
Cash	3.6%	3.5%	3.4%	3.5%	3.8%	3.9%
Accounts receivable	3.9%	3.8%	3.8%	3.8%	3.9%	4.2%
Inventory	15.3%	15.5%	16.4%	16.5%	16.5%	16.9%
Total current assets	22.8%	22.8%	23.6%	23.8%	24.2%	25.0%
Fixed assets						
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	3.8%	3.8%	3.9%	3.9%	3.9%	3.7%
Other assets						
Prepaid expenses, deposits, etc.	1.2%	1.7%	1.5%	1.5%	1.3%	1.5%
Total assets*	27.8%	28.3%	29.0%	29.2%	29.4%	30.2%
Liabilities						
Current and accrued liabilities						
Accounts payable	4.2%	4.4%	4.6%	4.7%	4.9%	5.3%
Notes payable (within one year)	1.5%	1.6%	1.6%	1.6%	1.6%	1.5%
Accrued expenses and other liabilities	1.5%	1.6%	1.5%	1.6%	1.5%	1.7%
Total current and accrued liabilities	7.2%	7.6%	7.7%	7.9%	8.0%	8.5%
Long-term liabilities						
Notes payable (later than one year)	4.3%	4.5%	4.5%	4.6%	4.1%	4.2%
Total liabilities	11.5%	12.1%	12.2%	12.5%	12.1%	12.7%
Net Worth	16.3%	16.2%	16.8%	16.7%	17.3%	17.5%
Total liabilities and net worth*	27.8%	28.3%	29.0%	29.2%	29.4%	30.2%
Net working capital	15.5%	15.3%	15.9%	15.9%	16.3%	16.5%
Sales ($000)	$458.4	$420.9	$379.2	$352.9	$314.9	$281.9
Purchases	67.7%	66.9%	66.6%	67.0%	66.2%	66.0%
Net profit (before taxes)	3.5%	3.3%	3.7%	3.6%	3.8%	3.8%
Financial Ratios						
Current assets to current liabilities	3.1 times	3.0 times	3.1 times	3.0 times	3.0 times	3.0 times
Net sales to net worth	6.2 times	6.2 times	6.0 times	6.0 times	5.8 times	5.7 times
Net profit (before taxes) on net worth	21.5%	20.3%	21.8%	21.6%	21.6%	21.5%
Total debt to net worth	71.3%	74.3%	72.8%	74.9%	69.6%	71.6%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Ten-Year Trends of Balance Sheet and Financial Ratio Data—In Table 15, the ten-year trends of balance sheet data are shown as percentages of sales accompanied by selected financial ratio figures for a comparable period. The relatively constant nature of fixed assets during the decade suggests that pharmacy management has not increased investment in fixtures and equipment in relation to sales growth. This may be due to the reduced profitability of the average store and, therefore, to a decrease in retained earnings, which are a source of capital for such expenditures. High interest rates for borrowed funds may have contributed to the decision to delay capital investment. The general ten year decline in net worth and net working capital reflects an overall downward trend in net income as a percent of sales. Financial ratio information indicates that the current ratio has remained relatively constant at about 3 times for the past ten years and suggests that the typical pharmacy owner-manager has maintained sufficient funds to satisfy current financial obligations. The net sales to net worth ratio shows that Lilly Digest stores have become somewhat more highly leveraged and that owners are probably not infusing monies into the business to the extent observed earlier in the decade. The return on investment ratio has fluctuated in a very narrow range over the period, with the return on investment for the average pharmacy in the area of 21%.

Forecasting Independent Pharmacy Operations for 1989

Jean Paul Gagnon, Ph.D.,* and Kenneth W. Kirk, Ph. D.†

Introduction

Many community pharmacy managers try to forecast sales and expenses for budgeting purposes. Most start by examining previous years' financial statements for significant trends, and some extrapolate these trends out a few years. Often, these projections are relatively meaningless because of events occurring in the economy or health care environment. Numerous pharmacy managers say that it is difficult to develop good projections because of the subjective nature of forecasting.

Actually, the process just described is no different from what is done in large business corporations. The best that can be expected is to arrive at a "reasonable guess" of how successfully a pharmacy will be operating in the future. It is important to note that forecasting is partly an art and partly a science. This section presents a forecast of pro forma statements for the average community pharmacy submitting financial data to the Lilly Digest in 1989.

Gagnon-Kirk Approach

The approach used was a combination of two techniques—mathematical projection (using past trends as future guides), and judgment (utilizing readings, business indicators, and dialogue with pharmacists). The first step was to enter average Lilly Digest figures for each of the last 23 years into a computer. Then, a stepwise autoregression statistical software program was used to project 1989 figures. The categories of figures under the column titled "Computer Forecast" in Figure A were examined, and the computer's predictions were then altered on the basis of readings and opinions about future events to arrive at the projections shown under "Noncomputer Forecast."

Forecast Estimates

With an awareness of current events, six factors were identified which would heavily influence the direction of prescription demand over the next five years: (1) the growth in the elderly population, (2) the growth in Health Maintenance Organizations and Preferred Provider Organizations, (3) the growth in third party prescription plans, (4) the growth in generic drug dispensing, (5) the number of new chemical entities coming into the market, and (6) the number of drugs coming off patent. The computer had predicted that prescription volume would decline. But, after much research, it was concluded that prescription volume would probably increase at a faster rate over the next five years than it had in recent years, especially because of the growth in the elderly population, and that by 1989, prescription volume would average 32,000 prescriptions per pharmacy.

Over the last five years, prescription prices have increased at a rate approaching 10%. Will this trend continue over the next five years? Based on the rate of price increases for the first quarter of 1985, the conclusion was that the rate will decline and that an 8% average annual rate would probably be realistic because of lower inflation and increased competition. With this 8% annual figure, the average prescription price in 1989 was calculated to be $16.00, which would result in prescription sales for 1989 of approximately $512,000. The projected prescription price was $0.34 higher than what the computer estimated.

The next step was to examine nonprescription sales in the same manner. The trend line for nonprescription sales indicated that they will approach $255,000 in 1989, representing an annual increase of 2%. Thus, sales for the average community independent operator in 1989 will be around $767,000, 5% higher than the computer forecast.

The next important step was to calculate the annual gross margin and turnover figures. Because of increased competitive pressures and cost controls, gross margin will decline but inventory turnover will rise as a result of better management. The average proprietor's or manager's salary was forecast to reach $40,865, and employee wages and other expenses will remain at approximately 11 and 13% of sales respectively (barring an unforeseen shortage of pharmacists). Because of increased competition, net profit will be 3% of sales.

Increasing the turnover rate will have a positive impact on inventory levels, with a fall in inventory to approximately 14% of sales. The most important conclusions are that prescription sales will make up a more significant portion of total sales in the independent pharmacy in 1989 and that store size will probably increase.

In summary, the future for independent pharmacy operators looks optimistic because they will adapt to

*Jean Paul Gagnon, Ph.D., is Professor of Pharmacy Administration at the University of North Carolina at Chapel Hill.
†Kenneth W. Kirk, Ph.D., is Professor of Pharmacy Administration at the University of Texas at Austin.

markets at least as well as they always have. For example, by aggressively entering the home health care market and offering cost-effective services, pharmacists should be able to capitalize on society's attempt to lower health care costs. However, they can be successful in the coming years only if they also employ sound management skills in the areas of pricing, inventory control, and accounts receivable in addition to seeking marketing opportunities. It will be interesting to see which estimates were correct in 1990—the computer or the subjective guesses made from an evaluation of market trends and an appreciation of pharmacists' flexibility.

Figure A

Pro Forma Income Statement and Projections for 1989

Averages per Pharmacy	Computer Forecast*	Noncomputer Forecast
Total sales	$728,393	$767,000
Cost of goods sold	67.4%	67.8%
Gross margin	32.6%	32.2%
Expenses		
Proprietor's or manager's salary	$ 37,647	$ 40,865
Employees' wages	11.0%	11.1%
Other expenses	13.8%	12.6%
Total expenses	30.0%	29.2%
Net profit (before taxes)	2.6%	3.0%
Total income of self-employed proprietor (before taxes on income and profits)	7.8%	8.5%
Value of inventory at cost	14.5%	13.7%
Annual rate of turnover of inventory	5.2 times	5.0 times
Sales		
Prescription	$428,849	$512,000
Other	299,544	255,000
Sales per dollar invested in inventory		
Prescription	$9.38	$10.12
Other	5.01	4.98
Size of area (square foot)	2,824	3,080
Sales per square foot		
Prescription	$953.01	$1,034.34
Other	126.54	98.65
Total	$258.24	$ 249.03
Number of prescriptions dispensed	27,385	32,000
Prescription charge	$15.66	$16.00

*Forecasts were made from income statements submitted to the LILLY DIGEST between 1960 and 1983.

The Future of Pharmacy

John F. Schlegel, Pharm.D.*

It does not take an astute observer or an academically analytical mind to conclude that health care is undergoing dramatic change and that pharmacy is right in the middle of it. Such changes are apparent even to those only remotely connected to the profession. Certainly pharmacy practitioners, who deal with change every day they practice, are acutely aware that change is constant, pervasive, and a force to be reckoned with.

Pharmacists are not strangers to change nor to the challenges which it brings with it. One only needs to be a casual student of the profession's history to recognize the many challenges that have occurred periodically, and one cannot help being impressed with the extraordinary ways in which pharmacists have risen to meet them. I am confident that today's practitioners will respond to any contemporary challenges in just as an exemplary manner as did their predecessors.

We already see dramatic examples of pharmacists' exceptional ability to adapt to current outside forces largely beyond their control. They realize that it is not "business as usual," and they are striking out in previously uncharted directions, such as home health care, home intravenous therapy, skilled nursing facilities, consultative practices, and nuclear pharmacy services. They are experimenting with computer-assisted pharmacy practices, cooperative purchasing, and greater involvement in the dispensing of medical devices and diagnostic kits. Pharmacists are also carefully examining how they use their time and how other kinds of pharmacy personnel can take over some of the more routine tasks once considered as pharmacists' "sacred territory."

Some have said that in this time of dramatic change the very survival of pharmacy is at stake. I don't believe that. True, some practitioners—those who either refuse or are unable to adapt—may not survive, but the profession will flourish, not perish.

The profession is strengthening its capability to understand trends and forecast new developments in the health care system, and this understanding is buttressed by the fact that the academic, industrial, and pharmacy practice communities are working together to examine the future and to make forecast data readily available. Pharmacy organizations are providing the tools to enable individual professionals to extrapolate information from those forecasts and apply it to their own practice situations. More and more, the various segments of the profession have come to realize that we must work together to determine how the profession as a whole—and not its individual parts—relates to all of health care.

This is not a time to "circle the wagons," nor is it a time for individuals and specialized interest groups within the profession to "go it alone." Pharmacy and pharmacists will continue to provide cost-effective health care in a manner that is professionally and economically rewarding. However, it will mean that all of us, working together, continue to analyze how the profession can accomplish this in the context of the overall health care system and that practitioners will need to continue to adapt their individual practices and roles in response.

Change can be an adversity or it can be an opportunity—in the case of pharmacy, I think it is the latter.

*John F. Schlegel, Pharm.D., President
American Pharmaceutical Association

The Independent: Shaping Tomorrow Today

Charles M. West, P.D.*

Since 1932, the LILLY DIGEST has been monitoring operating trends in independent retail pharmacies. During that time, the DIGEST has emerged as perhaps the single most valuable barometer of the financial health of the nation's independent pharmacies.

Since 1898, the National Association of Retail Druggists has been the voice of the nation's independents. For 87 years, NARD has never wavered from its mission to ensure the continued prosperity of the independent as a vital component of both the free enterprise system and our nation's health care delivery system.

Because maintaining the economic well being of our members, who represent the owners of nearly 30,000 independent retail pharmacies, is central to NARD's mission, we have come to look upon the LILLY DIGEST as an essential companion. It is an invaluable management tool for independent store owners and managers across the country.

However, its value extends well beyond the independent. Bankers, accountants, colleges, Medicaid officials, wholesalers, and countless others regularly refer to the DIGEST for information about pharmacy operations. There is perhaps no higher tribute to a publication than the sheer number of people who rely on it to help them do their jobs.

In keeping with tradition, this year's DIGEST has again identified several significant trends that will be of bottom-line value to independents and others with an interest in pharmacy practice. In large measure, the news is good for the independent. Two patterns seem particularly meaningful, and they deal with the prescription department.

The percentage of renewed prescriptions to total prescriptions rose to 51.4%—continuing a five-year upward trend and providing definitive evidence that independents continue to enjoy an exceptionally loyal customer base. The percentage of prescription revenues to total revenues increased to 60.5% in the typical independent store, up more than 12% from a decade ago—again, clear cut evidence of the important health care role independents are fulfilling in their communities.

These trends identified by the DIGEST coincide with several important demographic and political trends that also point to a bright future for the independent. The rapid aging of the American population, for example, means that increasing numbers of consumers will be turning to their neighborhood druggist to serve their health care needs. Add to that the burgeoning home health movement, a better educated health care consumer who shops for quality and service, not merely price, and a renewed faith in the entrepreneurial spirit, and there does indeed appear to be cause for optimism.

That is not to say that the challenges facing the nation's independent retail pharmacists are not formidable. They are. In both the marketplace and the political arena, bold, decisive action will be called for. The independent cannot afford to stand by and wait for the future to happen. The initiative must be seized early on, or events will unfurl without an opportunity for pharmacists to be heard.

NARD is committed to doing all it can to make sure that the independent does capitalize on the encouraging trends the future offers. In addition, NARD will work with all of pharmacy organizations and with specialized interest groups, both inside and outside the profession, to build a prosperous future for the independent. Time and time again, it is the independent that seems best to satisfy the public's need for community health care.

*Charles M. West, P.D., Executive Vice President
National Association of Retail Druggists

Analysis Work Sheet

If you would like to have the Lilly Analysis Service analyze your financial information for 1985, just complete the participation form that will be **mailed to you early in January of 1986.** If you would like an immediate analysis of your present financial information, participation forms are available from Department MC-698, Eli Lilly and Company, Indianapolis, Indiana 46285.

If you wish to perform your own analysis, this work sheet will be useful . . .
fill in and compare

Income and Expense Statement	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see page 39)	Notes (◆ or ●)
Net sales	$	%	%	%	
Cost of goods sold	$	%	%	%	
Gross margin (net sales less cost of goods sold)	$	%	%	%	
Expenses					
Proprietor's or manager's salary	$	%	%	%	
Employees' wages	$	%	%	%	
Rent	$	%	%	%	
Heat, light, and power	$	%	%	%	
Accounting, legal, and other professional fees	$	%	%	%	
Taxes (except on buildings, income, and profit) and licenses	$	%	%	%	
Insurance (except on buildings)	$	%	%	%	
Interest paid	$	%	%	%	
Repairs	$	%	%	%	
Delivery	$	%	%	%	
Advertising	$	%	%	%	
Depreciation (except on buildings)	$	%	%	%	
Bad debts charged off	$	%	%	%	
Telephone	$	%	%	%	
Miscellaneous	$	%	%	%	
Total expenses	$	%	%	%	
Net operating profit (gross margin less total expenses)	$	%	%	%	

Balance Sheet	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see pages 22-24)	Notes (◆ or ●)
Current assets	$	%	%	%	
Fixed assets	$	%	%	%	
Total assets	$	%	%	%	
Current liabilities	$	%	%	%	
Long-term liabilities	$	%	%	%	
Total liabilities	$	%	%	%	
Net worth	$	%	%	%	

Other Calculations	Current Data	Last Year's Data	Lilly Digest Data (Comparable Categories) (see pages 39 and 22-24)	Notes (◆ or ●)
Inventory turnover	times	times	times	
Prescription sales prescription inventory	$	$	$	
Average prescription charge	$	$	$	
Number of prescriptions				
Current assets current liabilities	times	times	times	
Net sales net working capital	times	times	times	
Long-term liabilities net working capital	%	%	%	
Accounts payable outstanding	days	days	days	
Net profit net worth	%	%	%	

THE SELF-ANALYSIS SECTION OF THE LILLY DIGEST

This section contains 26 summaries of operating averages arranged according to both annual sales volume and daily prescription activity (Tables 16 through 19). A generally accepted accounting format is used to display the operating data so that comparisons can be made with any pharmacy's figures.

Table 16 *Sales under $350,000*

Averages per Pharmacy	Total Sales Under $200,000 (108 Pharmacies)		Total Sales $200,000-$250,000 (100 Pharmacies)	
Sales				
Prescription	$121,553	75.0%	$165,110	72.7%
Other	40,499	25.0%	62,054	27.3%
Total	$162,052	100.0%	$227,164	100.0%
Cost of goods sold	103,995	64.2%	145,201	63.9%
Gross margin	$ 58,057	35.8%	$81,963	36.1%
Expenses				
Proprietor's or manager's salary	$ 21,430	13.2%	$ 24,367	10.7%
Employees' wages	10,649	6.6%	16,756	7.4%
Rent	5,847	3.6%	6,247	2.7%
Heat, light, and power	1,819	1.1%	2,452	1.1%
Accounting, legal, and other professional fees	932	0.6%	1,240	0.6%
Taxes (except on buildings, income, and profit) and licenses	2,132	1.3%	3,334	1.5%
Insurance (except on buildings)	1,529	1.0%	2,317	1.0%
Interest paid	2,065	1.3%	2,210	1.0%
Repairs	549	0.3%	841	0.4%
Delivery	1,090	0.7%	1,216	0.5%
Advertising	1,501	0.9%	2,337	1.0%
Depreciation (except on buildings)	2,221	1.4%	2,500	1.1%
Bad debts charged off	140	0.1%	252	0.1%
Telephone	1,033	0.6%	1,360	0.6%
Miscellaneous	3,855	2.3%	6,114	2.7%
Total expenses	$ 56,792	35.0%	$ 73,543	32.4%
Net profit (before taxes)	$ 1,265	0.8%	$ 8,420	3.7%
Add proprietor's withdrawals	21,430	13.2%	24,367	10.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 22,695	14.0%	$ 32,787	14.4%
Value of inventory at cost and as a percent of sales				
Prescription	$ 18,006	14.8%	$ 21,275	12.9%
Other	11,283	27.9%	18,900	30.5%
Total	$ 29,289	18.1%	$ 40,175	17.7%
Annual rate of turnover of inventory	3.6 times		3.7 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	378	$321.57	322	$509.63
Other	850	47.65	1,118	56.66
Total	1,228	131.96	1,440	157.91
Sales per dollar invested in inventory				
Prescription	$6.75		$7.76	
Other	3.59		3.28	
Net profit per dollar invested in inventory	$0.043		$0.210	
Number of prescriptions dispensed				
New	5,532	51.8%	6,937	49.2%
Renewed	5,140	48.2%	7,171	50.8%
Total	10,672	100.0%	14,108	100.0%
Prescription charge	$11.39		$11.70	
Number of hours per week				
Pharmacy was open	51 hours		53 hours	
Worked by proprietor	46 hours		48 hours	
Worked by employed pharmacist(s)	7 hours		12 hours	

*Based on averages of pharmacies that reported all data

Total Sales				Total Sales			
$250,000-$300,000				$300,000-$350,000			
Under 50 Prescriptions Daily (64 Pharmacies)		Over 50 Prescriptions Daily (52 Pharmacies)		Under 50 Prescriptions Daily (50 Pharmacies)		Over 50 Prescriptions Daily (48 Pharmacies)	
$174,300	63.6%	$231,788	82.7%	$185,398	57.7%	$257,490	78.5%
99,842	36.4%	48,655	17.3%	135,708	42.3%	70,513	21.5%
$274,142	100.0%	$280,443	100.0%	$321,106	100.0%	$328,003	100.0%
181,872	66.3%	186,223	66.4%	212,931	66.3%	213,489	65.1%
$ 92,270	33.7%	$ 94,220	33.6%	$108,175	33.7%	$114,514	34.9%
$ 23,325	8.5%	$ 28,945	10.3%	$ 24,963	7.8%	$ 29,437	9.0%
22,569	8.2%	16,044	5.7%	28,620	8.9%	25,595	7.8%
6,572	2.4%	8,273	2.9%	8,233	2.6%	8,555	2.6%
3,371	1.2%	2,082	0.8%	3,614	1.1%	3,078	0.9%
1,341	0.5%	1,157	0.4%	1,936	0.6%	1,811	0.6%
3,493	1.3%	3,473	1.2%	5,274	1.7%	4,465	1.4%
2,702	1.0%	2,655	1.0%	3,738	1.2%	3,343	1.0%
2,929	1.1%	3,093	1.1%	4,446	1.4%	2,966	0.9%
1,317	0.5%	936	0.3%	1,341	0.4%	1,285	0.4%
1,441	0.5%	1,369	0.5%	1,597	0.5%	1,657	0.5%
2,664	1.0%	2,441	0.9%	3,582	1.1%	3,243	1.0%
3,573	1.3%	3,667	1.3%	4,303	1.3%	5,100	1.6%
415	0.2%	264	0.1%	566	0.2%	456	0.1%
1,255	0.5%	1,290	0.5%	1,334	0.4%	1,667	0.5%
7,519	2.7%	6,750	2.4%	9,607	3.0%	9,538	2.9%
	11.8%		10.5%		12.9%		11.8%
$ 84,486	30.9%	$ 82,439	29.4%	$103,154	32.2%	$102,196	31.2%
$ 7,784	2.8%	$ 11,781	4.2%	$ 5,021	1.5%	$ 12,318	3.7%
23,325	8.5%	28,945	10.3%	24,963	7.8%	29,437	9.0%
$ 31,109	11.3%	$ 40,726	14.5%	$ 29,984	9.3%	$ 41,755	12.7%
$ 24,296	13.9%	$ 27,252	11.8%	$ 23,164	12.5%	$ 29,320	11.4%
29,153	29.2%	12,623	25.9%	36,996	27.3%	18,707	26.5%
$ 53,449	19.5%	$ 39,875	14.2%	$ 60,160	18.7%	$ 48,027	14.6%
	3.4 times		4.9 times		3.6 times		4.6 times
sq. ft.		sq. ft.		sq. ft.		sq. ft.	
289	$599.60	342	$682.59	358	$519.60	325	$786.18
1,592	63.19	775	61.25	1,669	80.65	1,108	65.18
1,881	145.63	1,117	251.18	2,027	158.24	1,433	228.59
	$7.17		$8.51		$8.00		$8.78
	3.42		3.85		3.67		3.77
	$0.150		$0.300		$0.080		$0.260
6,263	44.9%	10,694	49.1%	7,102	49.5%	10,818	48.4%
7,693	55.1%	11,087	50.9%	7,238	50.5%	11,539	51.6%
13,956	100.0%	21,781	100.0%	14,340	100.0%	22,357	100.0%
	$12.49		$10.64		$12.93		$11.52
	56 hours		55 hours		58 hours		56 hours
	52 hours		47 hours		50 hours		48 hours
	14 hours		15 hours		19 hours		13 hours

Table 17 *Sales $350,000–$500,000*

Averages per Pharmacy	Total Sales $350,000-$400,000 Under 50 Prescriptions Daily (34 Pharmacies)	Total Sales $350,000-$400,000 Over 50 Prescriptions Daily (77 Pharmacies)
Sales		
Prescription	$179,639— 48.6%	$283,528— 75.6%
Other	190,175— 51.4%	91,496— 24.4%
Total	$369,814—100.0%	$375,024—100.0%
Cost of goods sold	244,717— 66.2%	243,154— 64.8%
Gross margin	$125,097— 33.8%	$131,870— 35.2%
Expenses		
Proprietor's or manager's salary	$ 27,789— 7.5%	$ 31,076— 8.3%
Employees' wages	38,642— 10.4%	33,242— 8.9%
Rent	9,594— 2.6%	8,568— 2.3%
Heat, light, and power	5,151— 1.4%	2,885— 0.8%
Accounting, legal, and other professional fees	1,822— 0.5%	2,007— 0.5%
Taxes (except on buildings, income, and profit) and licenses	5,988— 1.6%	5,855— 1.6%
Insurance (except on buildings)	4,113— 1.1%	3,735— 1.0%
Interest paid	4,499— 1.2%	4,087— 1.1%
Repairs	1,773— 0.5%	1,352— 0.4%
Delivery	1,438— 0.4%	1,874— 0.5%
Advertising	4,350— 1.2%	2,901— 0.8%
Depreciation (except on buildings)	5,999— 1.6%	5,472— 1.4%
Bad debts charged off	272— 0.1%	530— 0.1%
Telephone	1,667— 0.4%	1,939— 0.5%
Miscellaneous	8,801— 2.4%	10,58[illegible]— 2.8%
Total expenses	$121,898— 32.9%	$116,[illegible]09— 31.0%
Net profit (before taxes)	$ 3,199— 0.9%	$ 15,761— 4.2%
Add proprietor's withdrawals	27,789— 7.5%	31,076— 8.3%
Total income of self-employed proprietor (before taxes on income and profits)	$ 30,988— 8.4%	$ 46,837— 12.5%
Value of inventory at cost and as a percent of sales		
Prescription	$ 24,245— 13.5%	$ 32,591— 11.5%
Other	46,941— 24.7%	23,525— 25.7%
Total	$ 71,186— 19.2%	$ 56,116— 15.0%
Annual rate of turnover of inventory	3.4 times	4.5 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	309 $582.30	364 $780.79
Other	2,249 84.52	1,276 71.80
Total	2,558 144.55	1,640 228.99
Sales per dollar invested in inventory		
Prescription	$7.41	$8.70
Other	4.05	3.89
Net profit per dollar invested in inventory	$0.040	$0.280
Number of prescriptions dispensed		
New	6,298— 47.2%	10,542— 43.9%
Renewed	7,058— 52.8%	13,451— 56.1%
Total	13,356—100.0%	23,993—100.0%
Prescription charge	$13.45	$11.82
Number of hours per week		
Pharmacy was open	62 hours	57 hours
Worked by proprietor	50 hours	48 hours
Worked by employed pharmacist(s)	30 hours	23 hours

*Based on averages of pharmacies that reported all data

Total Sales			
$400,000-$450,000			
Under 75 Prescriptions Daily (76 Pharmacies)		Over 75 Prescriptions Daily (33 Pharmacies)	
$269,094	63.1%	$343,451	80.1%
157,442	36.9%	85,410	19.1%
$426,536	100.0%	$428,861	100.0%
276,718	64.9%	287,180	67.0%
$149,818	35.1%	$141,681	33.0%
$ 28,201	6.6%	$ 31,342	7.3%
41,453	9.7%	32,527	7.6%
10,229	2.4%	11,131	2.6%
4,145	1.0%	3,511	0.8%
2,208	0.5%	1,301	0.3%
6,290	1.5%	7,108	1.6%
4,456	1.0%	4,014	0.9%
3,985	0.9%	3,863	0.9%
1,424	0.3%	1,627	0.4%
1,981	0.5%	1,935	0.5%
4,364	1.0%	4,385	1.0%
5,662	1.3%	6,844	1.6%
575	0.1%	807	0.2%
1,980	0.5%	1,561	0.4%
12,205	2.9%	12,415	2.9%
$129,158	30.2%	$124,371	29.0%
$ 20,660	4.9%	$ 17,310	4.0%
28,201	6.6%	31,342	7.3%
$ 48,861	11.5%	$ 48,652	11.3%
$ 32,451	12.1%	$ 33,463	9.7%
39,331	25.0%	24,958	29.2%
$ 71,782	16.8%	$ 58,421	13.6%
	4.0 times		5.2 times
sq. ft.		sq. ft.	
392	$690.78	387	$890.85
1,964	79.86	1,224	67.82
2,356	181.49	1,611	265.72
	$8.29		$10.26
	4.00		3.42
	$0.290		$0.300
9,896	48.5%	14,339	45.9%
10,511	51.5%	16,931	54.1%
20,407	100.0%	31,270	100.0%
	$13.19		$10.98
	60 hours		57 hours
	47 hours		49 hours
	29 hours		25 hours

Total Sales			
$450,000-$500,000			
Under 75 Prescriptions Daily (41 Pharmacies)		Over 75 Prescriptions Daily (43 Pharmacies)	
$258,178	55.5%	$359,565	76.0%
207,319	44.5%	113,669	24.0%
$465,497	100.0%	$473,234	100.0%
312,653	67.2%	312,458	66.0%
$152,844	32.8%	$160,776	34.0%
$ 29,127	6.3%	$ 30,989	6.5%
46,181	9.9%	48,683	10.3%
10,897	2.3%	9,120	1.9%
4,382	0.9%	3,982	0.9%
1,921	0.4%	1,851	0.4%
8,022	1.7%	7,134	1.5%
4,726	1.0%	4,243	0.9%
4,314	0.9%	3,397	0.7%
1,454	0.3%	1,479	0.3%
2,060	0.5%	1,794	0.4%
5,392	1.2%	4,217	0.9%
5,580	1.2%	6,173	1.3%
618	1.0%	1,552	0.3%
1,857	0.4%	2,477	0.5%
11,399	2.5%	12,027	2.6%
$137,930	29.6%	$139,118	29.4%
$ 14,914	3.2%	$ 21,658	4.6%
29,127	6.3%	30,989	6.5%
$ 44,041	9.5%	$ 52,647	11.1%
$ 34,299	13.3%	$ 37,574	10.4%
49,633	23.9%	33,807	29.7%
$ 83,932	18.0%	$ 71,381	15.1%
	3.8 times		4.7 times
sq. ft.		sq. ft.	
363	$729.28	392	$932.41
2,126	95.09	1,577	68.04
2,489	187.46	1,969	240.14
	$7.53		$9.57
	4.18		3.36
	$0.180		$0.300
10,028	49.9%	14,909	45.3%
10,070	50.1%	18,006	54.7%
20,098	100.0%	32,915	100.0%
	$12.85		$10.92
	60 hours		59 hours
	47 hours		45 hours
	29 hours		30 hours

Table 18 *Sales $500,000–$750,000*

	Total Sales	
	$500,000-$600,000	
	Under 75 Prescriptions Daily (61 Pharmacies)	75 to 100 Prescriptions Daily (63 Pharmacies)
Sales		
Prescription	$260,323— 48.3%	$388,252— 71.1%
Other	278,288— 51.7%	157,646— 28.9%
Total	$538,611—100.0%	$545,898—100.0%
Cost of goods sold	364,144— 67.6%	361,122— 66.2%
Gross margin	$174,467— 32.4%	$184,776— 33.8%
Expenses		
Proprietor's or manager's salary	$ 29,684— 5.5%	$ 34,890— 6.4%
Employees' wages	58,030— 10.8%	56,066— 10.3%
Rent	14,011— 2.6%	11,971— 2.2%
Heat, light and power	6,038— 1.1%	5,041— 0.9%
Accounting, legal, and other professional fees	2,617— 0.5%	2,537— 0.5%
Taxes (except on buildings, income, and profit) and licenses	8,678— 1.6%	9,070— 1.6%
Insurance (except on buildings)	6,933— 1.3%	6,474— 1.2%
Interest paid	4,891— 0.9%	3,778— 0.7%
Repairs	2,255— 0.4%	2,216— 0.4%
Delivery	3,003— 0.6%	2,211— 0.4%
Advertising	5,479— 1.0%	5,956— 1.1%
Depreciation (except on buildings)	5,811— 1.1%	6,333— 1.2%
Bad debts charged off	724— 0.1%	653— 0.1%
Telephone	1,955— 0.4%	2,130— 0.4%
Miscellaneous	14,781— 2.7%	15,534— 2.8%
	11.7%	11.3%
Total expenses	$164,890— 30.6%	$164,860— 30.2%
Net profit (before taxes)	$ 9,577— 1.8%	$ 19,916— 3.6%
Add proprietor's withdrawals	29,684— 5.5%	34,890— 6.4%
Total income of self-employed proprietor (before taxes on income and profits)	$ 39,261— 7.3%	$ 54,806— 10.0%
Value of inventory at cost and as a percent of sales		
Prescription	$ 30,130— 11.6%	$ 38,627— 9.9%
Other	58,602— 21.1%	42,920— 27.2%
Total	$ 88,732— 16.5%	$ 81,547— 14.9%
Annual rate of turnover of inventory	4.2 times	4.6 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	356 $729.52	389 $997.89
Other	2,657 105.20	1,897 83.00
Total	3,013 178.93	2,286 238.59
Sales per dollar invested in inventory		
Prescription	$8.64	$10.05
Other	4.75	3.67
Net profit per dollar invested in inventory	$0.110	$0.240
Number of prescriptions dispensed		
New	9,972— 48.3%	15,208— 49.3%
Renewed	10,653— 51.7%	15,671— 50.7%
Total	20,625—100.0%	30,879—100.0%
Prescription charge	$12.62	$12.57
Number of hours per week		
Pharmacy was open	68 hours	63 hours
Worked by proprietor	47 hours	47 hours
Worked by employed pharmacist(s)	45 hours	44 hours

*Based on averages of pharmacies that reported all data

	Total Sales				
	$600,000-$750,000				
Over 100 Prescriptions Daily (27 Pharmacies)	Under 75 Prescriptions Daily (45 Pharmacies)	75 to 100 Prescriptions Daily (49 Pharmacies)	100 to 125 Prescriptions Daily (40 Pharmacies)	Over 125 Prescriptions Daily (25 Pharmacies)
$460,742— 82.8%	$286,369— 43.1%	$403,209— 60.6%	$504,837— 75.5%	$593,857— 87.4%
95,475— 17.2%	378,387— 56.9%	262,343— 39.4%	163,608— 24.5%	85,230— 12.6%
$556,217—100.0%	$664,756—100.0%	$665,552—100.0%	$668,445—100.0%	$679,087—100.0%
363,311— 65.3%	440,145— 66.2%	446,020— 67.0%	446,363— 66.8%	430,224— 63.4%
$192,906— 34.7%	$224,611— 33.8%	$219,532— 33.0%	$222,082— 33.2%	$248,863— 36.6%
$ 40,346— 7.3%	$ 34,738— 5.2%	$ 38,704— 5.8%	$ 41,065— 6.1%	$ 41,703— 6.1%
54,487— 9.8%	78,876— 11.9%	74,492— 11.2%	69,114— 10.3%	78,511— 11.6%
11,071— 2.0%	18,477— 2.8%	15,341— 2.3%	12,112— 1.8%	13,673— 2.0%
3,233— 0.6%	7,295— 1.1%	5,927— 0.9%	4,765— 0.7%	3,349— 0.5%
2,351— 0.4%	3,070— 0.5%	3,013— 0.5%	2,143— 0.3%	2,829— 0.4%
7,991— 1.4%	12,014— 1.8%	11,570— 1.8%	9,662— 1.5%	9,810— 1.4%
6,631— 1.2%	7,902— 1.2%	6,840— 1.0%	7,290— 1.1%	5,898— 0.9%
3,674— 0.7%	6,481— 1.0%	3,381— 0.5%	5,393— 0.8%	2,666— 0.4%
1,887— 0.3%	3,395— 0.5%	2,699— 0.4%	2,913— 0.4%	3,519— 0.5%
2,836— 0.5%	2,500— 0.4%	2,212— 0.3%	2,446— 0.4%	4,433— 0.7%
3,697— 0.7%	7,579— 1.1%	6,824— 1.0%	6,645— 1.0%	4,698— 0.7%
5,908— 1.1%	9,523— 1.4%	7,538— 1.1%	7,410— 1.1%	8,974— 1.3%
1,522— 0.3%	835— 0.1%	1,090— 0.2%	1,179— 0.2%	11,042— 1.6%
2,715— 0.5%	2,446— 0.4%	2,201— 0.3%	2,272— 0.3%	2,853— 0.4%
14,616— 2.6%	20,052— 3.0%	18,965— 2.9%	20,364— 3.1%	25,576— 3.7%
10.3%	12.5%	10.9%	10.9%	12.5%
$162,965— 29.4%	$215,183— 32.4%	$200,797— 30.2%	$194,763— 29.1%	$219,534— 32.2%
$ 29,941— 5.3%	$ 9,428— 1.4%	$ 18,735— 2.8%	$ 27,319— 4.1%	$ 29,329— 4.4%
40,346— 7.3%	34,738— 5.2%	38,704— 5.8%	41,065— 6.1%	41,703— 6.1%
$ 70,287— 12.6%	$ 44,166— 6.6%	$ 57,439— 8.6%	$ 68,384— 10.2%	$ 71,032— 10.5%
$ 45,650— 9.9%	$ 30,349— 10.6%	$ 41,132— 10.2%	$ 47,103— 9.3%	$ 48,767— 8.2%
26,657— 27.9%	86,070— 22.7%	59,234— 22.6%	38,876— 23.8%	15,137— 17.8%
$ 72,307— 13.0%	$116,419— 17.5%	$100,366— 15.1%	$ 85,979— 12.9%	$ 63,904— 9.4%
5.2 times	3.9 times	4.5 times	5.4 times	7.1 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
380 $1,213.95	389 $741.49	420 $967.16	412 $1,220.59	464 $1,278.37
1,339 69.79	3,594 104.99	2,730 94.97	2,055 79.57	1,114 77.84
1,719 322.34	3,983 167.14	3,150 211.25	2,467 270.28	1,578 431.23
$10.09	$9.44	$9.80	$10.72	$12.18
3.58	4.40	4.43	4.21	5.63
$0.410	$0.080	$0.190	$0.320	$0.460
19,217— 47.6%	10,957— 50.0%	15,703— 49.3%	19,191— 47.3%	24,761— 47.9%
21,191— 52.4%	10,940— 50.0%	16,135— 50.7%	21,406— 52.7%	26,956— 52.1%
40,408—100.0%	21,897—100.0%	31,838—100.0%	40,597—100.0%	51,717—100.0%
$11.40	$13.08	$12.66	$12.44	$11.48
60 hours	66 hours	67 hours	63 hours	59 hours
47 hours	47 hours	48 hours	47 hours	44 hours
36 hours	58 hours	49 hours	41 hours	40 hours

Table 19 *Sales $750,000–over $1,500,000*

	Total Sales $750,000-$1,000,000	
	Under 100 Prescriptions Daily (46 Pharmacies)	100 to 125 Prescriptions Daily (29 Pharmacies)
Sales		
Prescription	$340,790— 40.4%	$500,951— 59.2%
Other	501,934— 59.6%	345,273— 40.8%
Total	$842,724—100.0%	$846,224—100.0%
Cost of goods sold	566,556— 67.2%	575,092— 68.0%
Gross margin	$276,168— 32.8%	$271,132— 32.0%
Expenses		
Proprietor's or manager's salary	$ 42,659— 5.1%	$ 42,484— 5.0%
Employees' wages	87,689— 10.4%	94,893— 11.2%
Rent	24,453— 2.9%	18,345— 2.2%
Heat, light and power	7,753— 0.9%	7,079— 0.8%
Accounting, legal, and other professional fees	4,831— 0.6%	2,508— 0.3%
Taxes (except on buildings, income, and profit) and licenses	13,366— 1.6%	13,070— 1.5%
Insurance (except on buildings)	8,636— 1.0%	8,065— 1.0%
Interest paid	7,687— 0.9%	4,377— 0.5%
Repairs	3,601— 0.4%	2,677— 0.3%
Delivery	1,869— 0.2%	2,628— 0.3%
Advertising	9,639— 1.2%	9,337— 1.1%
Depreciation (except on buildings)	10,448— 1.3%	10,014— 1.2%
Bad debts charged off	726— 0.1%	1,167— 0.1%
Telephone	2,541— 0.3%	2,439— 0.3%
Miscellaneous	21,965— 2.6%	23,634— 2.8%
	11.1%	10.2%
Total expenses	$247,863— 29.5%	$242,717— 28.6%
Net profit (before taxes)	$ 28,305— 3.3%	$ 28,415— 3.4%
Add proprietor's withdrawals	42,659— 5.1%	42,484— 5.0%
Total income of self-employed proprietor (before taxes on income and profits)	$ 70,964— 8.4%	$ 70,899— 8.4%
Value of inventory at cost and as a percent of sales		
Prescription	$ 37,493— 11.0%	$ 47,622— 9.5%
Other	98,482— 19.6%	75,927— 22.0%
Total	$135,975— 16.1%	$123,549— 14.6%
Annual rate of turnover of inventory	4.4 times	4.8 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	347 $984.93	455 $1,115.29
Other	3,525 143.26	3,319 98.92
Total	3,872 218.71	3,774 221.35
Sales per dollar invested in inventory		
Prescription	$9.09	$10.52
Other	5.10	4.55
Net profit per dollar invested in inventory	$0.210	$0.230
Number of prescriptions dispensed		
New	14,032— 52.2%	19,192— 47.4%
Renewed	12,857— 47.8%	21,315— 52.6%
Total	26,889—100.0%	40,507—100.0%
Prescription charge	$12.67	$12.37
Number of hours per week		
Pharmacy was open	72 hours	70 hours
Worked by proprietor	48 hours	49 hours
Worked by employed pharmacist(s)	52 hours	63 hours

	Total Sales $1,000,000-$1,500,000			Total Sales Over $1,500,00
Over 125 Prescriptions Daily (57 Pharmacies)	Under 100 Prescriptions Daily (32 Pharmacies)	100 to 150 Prescriptions Daily (46 Pharmacies)	Over 150 Prescriptions Daily (54 Pharmacies)	(41 Pharmacies)
$661,687— 75.1%	$ 359,792— 30.7%	$ 575,867— 48.5%	$ 820,107— 68.5%	$ 788,018— 42.7%
219,629— 24.9%	812,710— 69.3%	610,501— 51.5%	377,565— 31.5%	1,058,755— 57.3%
$881,316—100.0%	$1,172,502—100.0%	$1,186,368—100.0%	$1,197,672—100.0%	$1,846,773—100.0%
595,870— 67.6%	804,834— 68.6%	816,382— 68.8%	814,024— 68.0%	1,280,218— 69.3%
$285,446— 32.4%	$ 367,668— 31.4%	$ 369,986— 31.2%	$ 383,648— 32.0%	$ 566,555— 30.7%
$ 43,648— 5.0%	$ 43,877— 3.7%	$ 45,597— 3.8%	$ 47,295— 3.9%	$ 54,232— 2.9%
100,749— 11.4%	144,893— 12.4%	134,575— 11.3%	141,219— 11.8%	227,543— 12.3%
16,658— 1.9%	34,460— 2.9%	26,600— 2.2%	23,625— 2.0%	38,584— 2.1%
4,709— 0.5%	11,028— 1.0%	10,156— 0.9%	7,536— 0.6%	15,118— 0.8%
4,501— 0.5%	3,760— 0.3%	4,596— 0.4%	4,675— 0.4%	7,088— 0.4%
13,879— 1.6%	17,814— 1.5%	19,306— 1.6%	18,785— 1.6%	24,480— 1.6%
9,692— 1.1%	9,506— 0.8%	12,322— 1.0%	14,377— 1.2%	16,821— 0.9%
4,840— 0.5%	7,418— 0.6%	7,845— 0.7%	6,767— 0.6%	15,486— 0.8%
3,278— 0.4%	4,522— 0.4%	4,497— 0.4%	5,176— 0.4%	6,381— 0.4%
4,314— 0.5%	3,570— 0.3%	3,995— 0.3%	4,289— 0.3%	6,105— 0.3%
8,330— 0.9%	16,494— 1.4%	15,883— 1.4%	10,205— 0.9%	23,077— 1.3%
9,554— 1.1%	11,131— 1.0%	13,118— 1.1%	14,963— 1.2%	20,833— 1.1%
1,559— 0.2%	756— 0.1%	3,608— 0.3%	1,531— 0.1%	1,650— 0.1%
3,429— 0.4%	2,847— 0.3%	3,391— 0.3%	4,012— 0.3%	5,678— 0.3%
25,285— 2.9%	35,619— 3.0%	33,061— 2.8%	38,038— 3.2%	66,676— 3.6%
10.6%	10.7%	11.2%	10.8%	11.6%
$254,425— 28.9%	$ 347,695— 29.7%	$ 338,550— 28.5%	$ 342,493— 28.5%	$ 533,752— 28.9%
$ 31,021— 3.5%	$ 19,973— 1.7%	$ 31,436— 2.7%	$ 41,155— 3.5%	$ 32,803— 1.8%
43,648— 5.0%	43,877— 3.7%	45,597— 3.8%	47,295— 3.9%	54,232— 2.9%
$ 74,669— 8.5%	$ 63,850— 5.4%	$ 77,033— 6.5%	$ 88,450— 7.4%	$ 87,035— 4.7%
$ 60,745— 9.2%	$ 40,860— 11.4%	$ 55,004— 9.6%	$ 70,335— 8.6%	$ 73,369— 9.3%
38,990— 17.8%	160,397— 19.7%	130,087— 21.3%	72,863— 19.3%	172,243— 16.3%
$ 99,735— 11.3%	$ 201,257— 17.2%	$ 185,091— 15.6%	$ 143,198— 12.0%	$ 245,612— 13.3%
6.3 times	4.2 times	4.6 times	5.8 times	5.4 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
515 $1,294.22	437 $823.54	494 $1,176.55	595 $1,384.25	723 $1,079.22
1,892 111.43	5,198 155.12	4,108 147.50	2,936 127.93	4,521 224.98
2,407 364.61	5,635 206.96	4,602 258.07	3,531 339.64	5,244 342.68
$10.89	$8.81	$10.47	$11.66	$10.74
5.63	5.07	4.69	5.18	6.15
$0.310	$0.100	$0.170	$0.290	$0.130
28,374— 49.5%	16,292— 56.4%	22,686— 50.1%	34,807— 46.8%	32,111— 50.2%
28,984— 50.5%	12,595— 43.6%	22,589— 49.9%	39,632— 53.2%	31,815— 49.8%
57,358—100.0%	28,887—100.0%	45,275—100.0%	74,439—100.0%	63,926—100.0%
$11.54	$12.46	$12.72	$11.02	$12.33
66 hours	74 hours	73 hours	68 hours	74 hours
46 hours	49 hours	46 hours	48 hours	48 hours
71 hours	64 hours	73 hours	78 hours	105 hours

Conclusion

The professional area's substantial contribution to total sales is, in large part, responsible for the success of the independent community pharmacy practitioner's business. However, the emergence of new entities that also dispense prescriptions—Preferred Provider Organizations, Health Maintenance Organizations, and mail order prescription firms—have the potential to make a serious impact on retail pharmacy practice. The extent of the influence of these activities on the expanding health care market is yet to be examined.